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## HOW RESPONSIBLE IS RESPONSIBLE BUSINESS?

An analysis of the drivers and effects of the responsible business practices of Dutch enterprises operational in Kenyan agribusiness

LISANNE HEEMSKERK

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## **HOW RESPONSIBLE IS RESPONSIBLE BUSINESS?**

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Master Thesis International Development Studies  
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## ACKNOWLEDGEMENT

With great pleasure I present to you my thesis on the responsible business practices of Dutch enterprises active in Kenyan agribusiness. This thesis is the result of six months of field research and data analysis. This research was conducted as part of the graduation assignment of the International Development Studies master programme of the University of Utrecht, the Netherlands. Collaborating partners of the research project were the Embassy of the Netherlands in Nairobi, SNV South Rift Portfolio (Kenya) and Triodos Facet.

The research is part of a wider research project that is a collaborative effort of five students from Utrecht University and was conducted in five different African countries (Ethiopia, Ghana, Kenya, South Africa and Zambia). All individual research projects focussed on the responsible business practices of foreign enterprises in the African context. The results of all five countries will be compared in the near future and a report on the findings will be available.

This thesis provides an analysis of the manifestation and developmental impact of responsible business practices that Dutch enterprises in agribusiness in Kenya are currently experiencing. I hope this thesis provides insights into the overall developments of responsible business practices of Dutch enterprises and could possibly guide future actions regarding private sector development and responsible business in Kenya.

Conducting the research and writing this thesis was a great learning experience. This period has contributed to a better understanding, more knowledge, and new perspectives on responsible business.

This thesis would not have been realized without the support of several people. First of all, I would like to thank my supervisor Dr. Prof. Annelies Zoomers for her time and effort to advise me, guide me and answer questions when needed. In addition, I would like to thank Dirk Arts for investing so much time in the research and guiding me and my research colleges in the preparation phase of the research. Secondly, I would like to thank Corinne Abbas of the Embassy of the Netherlands for helping me with the fieldwork phase in Kenya and providing me with information and contacts. Third, I would like to thank SNV for providing a place to work and the great atmosphere at the office. Finally, I would like to thank the respondents who have taken the time to contribute to my research, without them I would not have been able to get the interesting results of this thesis.

Asante Sana!

Lisanne Heemskerk

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## EXECUTIVE SUMMARY

Responsible business has received increased attention in the past decade and has been identified as having the potential to make significant contributions to poverty alleviation and development. Companies are under greater pressure to take responsibility for their impacts on the societies, environment and value chain, in which they operate. The meaning and practices of responsible business are generally shaped by specific economic, social, cultural, and political contexts, and therefore vary from country to country. There is a great lack of research on what determines responsible behaviour in developing countries and what the impact is of ‘Western’ responsible business approaches in the context of these countries.

This research, investigates how responsible business is practiced by Dutch enterprises operational in Kenyan agribusiness and questions what this means for local sustainable development. Specific focus is put on the drivers of responsible business, the influence of stakeholders preventing and encouraging responsible behaviour and the impact of applying responsible business in the value chain of a certain product.

Through surveys and in depth interviews conducted with 37 Dutch enterprises operational in agribusiness in Kenya, and interviews (9) conducted with different stakeholders linked to the sector (organizations, government institutions, certification labels, employees), this research demonstrates how responsible business is practiced in Kenya.

Research results reveal that responsible business practices of Dutch enterprises are well established and primary focus is put on activities regarding employees, like the provision of healthy and safe working conditions, good salaries, health care on site and growth opportunities within the enterprise, and customers, mainly on maintaining a good business relationship. Customers and employees are in addition the main stakeholder groups encouraging responsible behaviour, while the Kenyan government is the main stakeholder preventing responsible behaviour due to immense corruption still prevalent in Kenya.

The similarities and differences that occur in responsible business practices of the interviewed Dutch enterprises appear to be related to their market focus and the size of the enterprises. Large enterprises and export enterprises have higher overall responsibility levels than SMEs and domestic enterprises. In addition, export companies for which certification is a market demand showed significantly higher levels of responsibility. Results indicate that the enterprises are primarily engaged in responsible business activities because this is required or a precondition by either international standardization and international market access, or by Kenyan labour and environmental laws. This international pressure and standardization on product quality have also resulted in Dutch companies taking more phases of the value chain into their own hands, leading to more integrated value chains. Particularly in the horticulture sector the ever increasing international demands have led to the exclusion of smallholder farmers as suppliers of export companies, due to tractability issues. Smallholders have been pushed out of the international market and forced to find new markets for their products, posing great obstructions for their livelihoods and local development. Furthermore, the developmental impact of responsible business practices reveals both negative and positive effects. On the environmental level the negative outcomes seem to outweigh the positive as companies put a large strain on natural resources. The economic effects, on the other hand, are largely positive and lead to specialized sectors and skilled employees, attracting more FDI and improving the livelihoods of local Kenyans due to employment. On the social level responsible behaviour is mostly related to quick fix solutions having little long-term developmental impact. These results lead to the following question: ‘when negative effects of responsible business practices outweigh the positive effects can responsible business actually be called responsible or is it merely a disguised form of traditional business?’ This research therefore discusses the implications of the findings to practice and policy proposing that there is a need to critically question: ‘how responsible is responsible business?’

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## LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
CSP	Corporate Social Performance
EAC	East African Community
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investments
FFP	Fair Flowers Fair Plants
FLO	Fair Trade Labelling Organization
FPEAK	Fresh Producer Export Association Kenya
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
ILO	International Labour Organization
KANU	Kenya African National Union
KEBS	Kenya Bureau of Standards
KFC	Kenya Flower Council
KSH	Kenyan Shilling
LDC	Least Developed Countries
LNGG	Lake Naivasha Growers Group
MPS	Milieu Project Sierteelt
MTPs	Medium Term Plans
NEMA	National Environment Management Authority
NGO	Non-Governmental Organisations
NLP	National Land Policy
ODA	Official Development Aid
OECD	Organization for Economic Cooperation and Development
RB	Responsible Business
SME	Small and Medium-sized Enterprise
UN	United Nations
VAT	Value Added Tax

## INTRODUCTION

Globalization has led to a substantial increase of financial flows crossing borders into other continents. Companies have been investing and often even relocating their business operation in search of more cost efficient locations. Africa is one of the continents that have experienced a substantial increase in foreign financial flows or foreign direct investments (FDI). As FDI is deemed a major stimulator of economic growth, the economic strategy of many African countries is increasingly focussed on improving conditions for FDI inflows. In most cases economic reforms as liberalization of domestic markets, privatization, and tax reforms are implemented. This has also been the case in Kenya, which has a sizeable share of foreign investors and has had a turbulent FDI history (Voorpijl, 2011).

As a result of increased FDI flows and the relocation of companies, the notion of acting responsible in business has taken substantial ground. Businesses are increasingly considered to have obligations that go beyond making a profit, to the societies and the environment in which they operate and help solve economic, social and environmental issues (Idemudia, 2011). This notion of acting responsible as a (core) business activity has received increased attention from both the private sector and from governments, NGO's and global institutes as the UN and OECD. Policy makers view the private sector as important in contributing to economic growth and development but also in reducing poverty, building human capital and in protecting the environment in developing countries. Through the promotion of free markets and the incorporation of small and medium sized local businesses in global supply chains enterprises are considered the key to global development (Prieto-Carron et al., 2006). Responsible business is increasingly seen as a bridge connecting businesses and profit making with economic, social and environmental development (Blowfield & Frynas, 2005). The Dutch Ministry of Foreign Affairs, for instance, has been placing substantial attention on creating development and reducing poverty in developing countries through private sector development and the responsible business activities of Dutch enterprises operational in developing countries. In a recent note to the parliament, the Secretary of State declared it was necessary for the Dutch development policy to take on an economic approach and place more emphasis on a select amount of developing countries and themes, in which the Netherlands has a specific expertise (Kamerbrief, 2011). Kenya is one of these focus counties, for which the Dutch government no longer provides aid but rather invests in the private sector development of the country. Prieto-Carron et al. (2006), however, argue that this take on businesses contributing to the development of developing countries reveals several limitations. These limitations are mainly due to a lack of clear definitions of what poverty and development actually encompass, leading to very different ideas and approaches on how to tackle poverty and how to create development. In addition, several aspects of development, like living standards, are often overlooked. For example, although the violation of labour rights and unsafe working conditions are high on the international agenda, the fact that many people have no other choice but work in these inhumane conditions, which are determined by international buyers and western consumers, is often overlooked. Therefore, there is a need for empirical research and evidence on how exactly businesses can contribute to and influence, positively and negatively, the economic, social and environmental development of developing countries (Prieto-Carron et al., 2006).

As a result of the increased emphasis on responsible business during the last decade, companies are under greater pressure to take responsibility for their impacts on the societies and the environment in which they operate (Visser, 2006). Hence, more and more companies are adopting responsible business practices, some voluntarily, influenced by the notion of giving back to society, and others more or less forced, as a means to sustain market access or merely a way to comply with rules and regulations regarding the behaviour of business in society. Whatever the motivation behind responsible behaviour, companies are experiencing many challenges because the field is still evolving (Gilbert, 2008).

One of these challenges is due to the fact that there is neither a globally or nationally accepted definition of responsible business, nor broadly accepted guidelines on the approaches and practices it includes. The term responsible business has been defined in various ways, from the limited economic perspective of creating a profit for shareholders, to enterprises adding value to a countries development as a core business (Jamali, 2008). The meaning and practices of responsible business are generally shaped by specific economic, social, cultural, and political contexts, and therefore differ from country to country. These differences have resulted in a large range of activities considered as responsible business and have created a rather fragmented responsible business field. Thus, to avoid confusion, in the context of this research the concept of responsible business is defined as the following:

*'The formal and informal ways in which business, next to making a profit, consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement of the developing countries in which they operate, through their business model and activities, while remaining sensitive to prevailing religious, historical and cultural contexts'* (Visser, 2011; Visser et al., 2007)

Most research conducted on responsible business has been concentrated on developed countries, generally in Europe and on the United States (Carroll 1991, Visser 2008). There is a great lack of research on responsible business practices in developing countries and in particular Africa. Previous research on responsible business in Africa mainly concentrated on best practice case studies and did not take into account the overall impact of business practices. Nor has it shown the real impact of applying responsible business, such as the compliance to certification labels, in the value chain of a product. Furthermore, as African countries are in the initial stage of implementing responsible business, and regulatory frameworks are largely absent, responsible business often manifests itself differently compared to the more rooted responsible business in western countries (Visser, 2008).

The need for responsible business research in developing countries is essential. Not only because developing countries have the most rapidly growing economies, attracting new businesses, and because social and environmental impacts are acutely felt, but particularly because current responsible business approaches, with their origin in western countries, may not sufficiently relate to the context and circumstances in developing economies. There has been increased apprehension that, because developing countries have different cultural and social norms and values, responsible business legitimizes values that are not in the interest of developing countries and the poor. Businesses are also increasingly confronted with the need to balance global requirements and the local context (Muthuri & Gilbert, 2011; Prieto-Carron et al., 2006). Hence, to find out what makes responsible business in developing countries different from the manifestation in the developed world, there is a need to examine the factors driving responsible business practices in these countries. These drivers could encourage or prevent a company to engage in responsible business and could originate from an internal level, from within the country, and from an external level, with a global origin (Visser, 2008).

## **1.1 PROBLEM IDENTIFICATION**

There is a great need for empirical research on the manifestation of responsible business practices in developing countries. Questions about what determines the similarities and differences of responsible business practices across countries and why responsible business practices change over time, remain unanswered. Furthermore, there is a need to investigate what the impact is of 'western' responsible business approaches in the context of different types of business and different sectors in developing countries.

In Kenya, responsible business has receiving increased attention during the last decade. As the country is economically growing and has obtained a worthy economic position internationally, domestic as well as international companies are deemed to contribute to the further economic, but also

social and environmental development of Kenya. This is particularly relevant in agribusiness, and more specifically in the floriculture sector, where many international and especially Dutch companies are active. As these sectors mainly produce for the international market they are increasingly exposed to international responsibility requirements. Hence, what these approaches involve, what their impact is in Kenya and whether they are indeed contributing to the development of Kenya needs to be examined.

In light of the above, this research will focus on responsible business practices of Dutch enterprises in agribusiness in Kenya, in order to contribute to the lacking literature and empirical research on responsible business practices in developing countries. To do so, the research explores why companies engage in responsible business, what companies include in their responsible business approach, what drives them to engage in responsible business, and how companies put their responsible business approach into practice. The main research question therefore is:

*How and why are Dutch enterprises in agribusiness in Kenya engaged in responsible business, and how does this contribute to local sustainable development?*

To address this research question, the research is divided in five sub questions:

1. *What are the characteristics of Dutch entrepreneurs and their enterprises in Kenya?*
2. *How is responsible business practiced by Dutch enterprises operational in agribusiness in Kenya?*
3. *What are the drivers encouraging and preventing the engagement of enterprises in responsible business, and how do enterprises respond to this?*
4. *How are different stakeholders within and outside the value chain affected by or affecting the responsible business approach?*
5. *What is the impact of applying responsible business in the value chain of a product?*

## **1.2 STRUCTURE OF THE THESIS**

Chapter two, the theoretical framework, introduces the main literary discussions and thoughts on responsible business. It provides an overview of different theoretical conceptualizations and frameworks of responsible business presented in academic literature. These theories, conceptualizations and frameworks presented will form the basis of the research. In chapter three, the geographical framework, an overview of the current demographic, economic, political, and agribusiness sector situation of Kenya are given. The chapter also provides an overview of previous research findings on responsible business in Kenya. Chapter four, the research outline, discusses the main components of this research. It includes a description of the research questions, the research strategy, research area, the data collection and the data analysis. Chapter five presents the research results of the characteristics of the interviewed entrepreneurs and their enterprises. This chapter is divided according to the main agribusiness subsectors. Chapter six provides an overview of the results of the different types and focus areas of responsible business practices. A comparison is made between different sectors, company size, market focus and certified and non-certified companies. Chapter seven presents the main drivers of responsible business, the stakeholder influence preventing and encouraging responsible behaviour and the impact of responsible business practices on the value chain of a product. Chapter eight discusses the developmental impact of the responsible business practices of the interviewed Dutch enterprises on an economic, environmental and social level. Chapter nine discusses the research findings and links these findings to the main theoretical conceptualizations and to previous research, provides recommendations for further research and highlights the main research limitations. In chapter ten the conclusion of the research is given and the main research question is answered.

## 2 THEORETICAL FRAMEWORK

Responsible business and similar concepts have received increased attention during the last decade. These concepts however are not completely new as they have been existent for several decades. This chapter will introduce the main discussions and concepts concerning responsible business put forward in international and national (Kenyan) literature during the last decades. It provides an overview of different theoretical conceptualizations and frameworks in the field of responsible business, advanced by Carroll (1991), Wood (1991), and Visser (2006, 2008, and 2011). In addition, the link between responsible business and different stakeholders and the value chain will be discussed according to stakeholder theory advanced by Freeman (1984) and Mitchell et al (1997). These theoretical conceptualizations and frameworks will form the basis of the research and will be tested for the case of responsible business practices of Dutch enterprises operational in Kenyan agribusiness.

### 2.1 DEFINING RESPONSIBLE BUSINESS

Central to this thesis is the concept responsible business. There is however no uncontested global or national definition of responsible business or corporate social responsibility (CSR). Nor are there internationally accepted guidelines about the practices it includes. The term responsible business is rather versatile, dynamic and context specific. Responsible business has been defined in many ways from the limited economic perspective of creating a profit for shareholders, to enterprises adding value to a countries development as a core business (Jamali, 2008; Gilbert, 2008). These differences have resulted in a large range of activities considered as responsible business and have created a rather fragmented responsible business field. For the purpose of this research responsible business is defined as the following:

*“The formal and informal ways in which business, next to making a profit, consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement of the developing countries in which they operate, through their business model and activities, while remaining sensitive to prevailing religious, historical and cultural contexts”* (Visser, 2011; Visser et al., 2007)

A review of the literature reveals there are not only multiple definitions but also multiple terms that refer to the relationship of business with society and the environment and are often used interchangeably. These terms include corporate social responsibility (Visser, 2010), corporate citizenship, corporate accountability, corporate social performance (Wood, 1991), Shared or Mutual Value creation (Porter & Kramer, 2011), sustainable development, inclusive business, and corporate social responsiveness. In this thesis the term responsible business will be used as an umbrella term incorporating other similar terms on the relationship of business with society and the environment (Gilbert, 2008).

### 2.2 HISTORICAL DEVELOPMENT

The responsible business debate has a long history and can generally be categorized into two stages or generations. The first generation, which started more or less in the 1950s, is also referred to as responsible business 1.0. The second generation, which made its appearance in the new millennium, is referred to as 2.0 (Visser, 2011). The next section will discuss the main ideas and concepts put forward by the academics assigned to these two generations of responsible business.

The foundation of the first generation is generally considered as Bowen’s publication of the book ‘*Social Responsibility of the Businessman*’ (1953). In this book, Bowen argues that businessmen are responsible for the consequences of their actions in a wider sphere than only profit-making. This new line of thinking about doing business was quickly adopted by many academics. Hence, in the years after Bowen’s publication the concept of social responsibility spread rapidly, as academics as

Davis (1960), McGuire (1960), and Johnson (1970) took the stage, each giving their own definition and views of the concept (Carroll, 1991). In general, responsible business 1.0 was seen as a tool for businesses to create relationships with communities, manage their image, provide philanthropic donations, and was considered a one-size-fits-all and very western approach. Although this first generation of responsible business represents a lot more academics and their views on responsible business, the academics mentioned here dominated the debate (Visser, 2011).

According to Visser (2011) the conviction of responsible business 1.0 failed to tackle the issues it claimed to tackle. He calls this the 'the triple curse of modern responsible business'. The first of this triple curse is referred to as peripheral CSR, and is caused by a lack of top management commitment to responsible business. Responsible business is too often a quick fix and aimed at short term solutions, providing for very little positive impact. The second curse, incremental CSR involves the adoption of codes of conduct and certification labels which in itself is a positive development but too often these codes fall short as they do not correspond to the scale and urgency of the problems. Lastly, uneconomic CSR encompasses the business case of responsible business. Involvement in responsible business is often viewed as not benefitting the business itself, particularly on the short term. On the long term, however, it can be rewarding but the market generally only focusses on the short term, making businesses take on this short term view as well (Visser, 2011).

The second generation of responsible business involves different notions put forward by several academics, of which W. Visser is rather prominent. The new dimensions that comprise this second generation or responsible business 2.0 are characterized by Visser (2011) as: innovative partnerships, stakeholder involvement, a shift in power from centralized to decentralized, and a shift from marginal to mainstream responsible business practices. In addition, Visser (2011) puts forward a new DNA of responsible business consisting of the principles of value creation, good governance, societal contribution and environmental integrity. The principle value creation refers to economic development in the form of investments in capital (financial, social, human and natural), sustainable and responsible goods and services and inclusive business activities like the emphasis on bottom of the pyramid markets. The principle good governance refers to responsible activities in the form of leadership or strategic commitment to sustainability, transparency and ethical business practices like the prevention of bribes and corruption. The principle societal contribution refers to a business's stakeholder orientation in the form of philanthropy, fair labour practices and supply chain integrity like the empowerment of small and medium sized enterprise. And finally, environmental integrity refers to the protection of ecosystems, usage of renewable resources and waste management. A company that is able to implement all four principles is regarded responsible. However, in practice companies often focus on only one of the principles at once, generally due to a lack of financial and human resources, a lack of commitment or a lack of drivers encouraging a business to act responsibly (Visser, 2011).

Part of responsible business 2.0 is the focus on the bottom of the pyramid, or base of the pyramid (Bop), as mentioned in the DNA of responsible business. This concept was first introduced by Prahalad (2004) and targets the 4 billion people in the world living on less than two dollar a day. These 4 billion people represent a market size of about \$13 trillion. Companies are increasingly targeting this base of the pyramid as consumers of their products. In order to do so companies need to create possibilities for consumption by making products affordable and accessible to the base of the pyramid, for example by providing 1dayportion sachets of shampoo. Critique, however, on this form of responsible business relates to the environmental damage and pollution of these products, which is generally left out of consideration because companies are too focussed on making product affordable and accessible (Visser, 2011).

In 2011 Porter and Kramer introduced the concept shared value, which has similar goals as Visser's responsible business 2.0. Porter and Kramer (2011) argue that companies must take the lead

in bringing business and society back together. The principle to do so rests in creating shared value or creating economic value in such a way that it also creates positive value for the societies in which a company operates. This can be done by considering new products and markets like targeting the base of the pyramid, by targeting different stakeholders in the value chain by focussing on resource management, water management, working condition, health and safety of employees, and by supporting local cluster development in the form of partnerships (Porter & Kramer, 2011).

Finally, a concept that has been adopted by many companies, NGO's and organizations is the 3P's (people, planet, profit) or tippel bottom line approach. This perspective considers the social (people), environmental (planet) and economic (profit) costs and benefits of companies on their surroundings. The concept is widely used to highlight that what is important is not only the economic or financial results of a company (the bottom line) but also the social and environmental results a company generates with its business activities (triple bottom line) (UNEP, 2009).

## **2.3 CATEGORIZATION OF RESPONSIBLE BUSINESS**

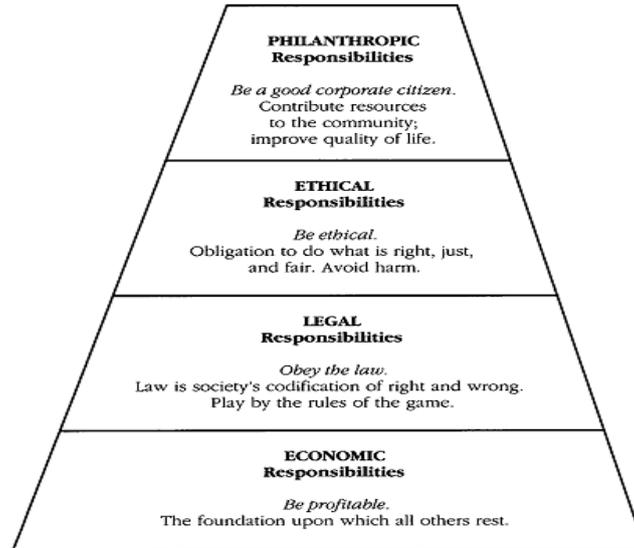
Responsible business can and has been categorized in many ways and till now there has not been a broadly accepted way of categorizing responsible business. This section will highlight the main categorizations of responsible business that will be used and tested for the context of this research.

### **2.3.1 The pyramid of CSR**

In 1979 Carroll introduced a model of Corporate Social Responsibility (CSR) that distinguishes four dimensions of responsibility that a business is regarded to cover; economic, legal, ethical and philanthropic. The first dimension, economic responsibility, refers to the basic role of businesses to produce goods and services, to create jobs, to be competitive and to make a profit while doing so. This is the foundation on which the principle of business is built and is derived from the classical economic rational of Adam Smith and David Ricardo (Carroll, 1991; Gilbert, 2008). Legal responsibility, involves the compliance to laws and regulations set by the state, local governments, and by society. Businesses are expected to respect these laws and regulations and thus play fair. Ethical responsibility goes beyond legal requirements and involves the compliance to norms and values set by religion, culture, and local society and are not codified into law (Jamali & Mirshak, 2006). Finally, philanthropic responsibility refers to voluntary activities of businesses by means of improvement of the society in which they operate, and to being a good corporate citizen. Examples are financially contributing to the improvement of educational and health issues of surrounding communities by building schools and hospitals (Carroll, 1991; Gilbert, 2008).

After having thoroughly tested the four dimensions in the context of the United States and in Europe, Carroll arranged them from most important to least important to companies, known as the pyramid of CSR (figure 1). The pyramid involves the fulfilment of a company's economic, legal, ethical and philanthropic responsibilities, meaning a company should, next to making a profit, strive to obey the law, be ethical, and contribute to communities. In practice however companies often focus on one or two components of the CSR pyramid only, as limited financial resources generally pose problems (Carroll, 1991).

Figure 1: Carroll's Pyramid of Corporate Social Responsibility (1991)

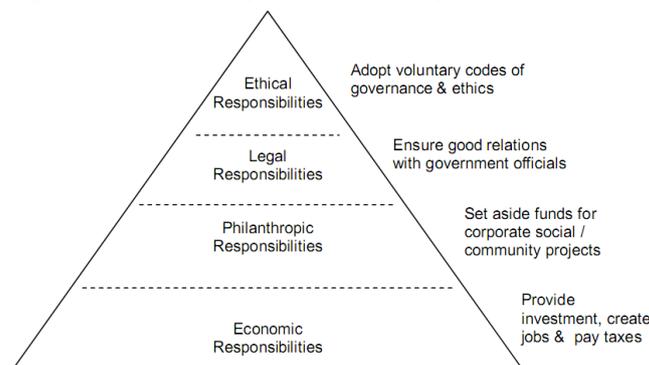


Source: Carroll, 1991

Although Carroll's pyramid (1991) has been widely applied, the relevance and applicability of the pyramid have often been called into question. Visser (2006) for instance, tested Carroll's pyramid for the African context and suggests that the order of the responsibility layers differ in Africa. The economic responsibility still gets most emphasis; however, philanthropic responsibility is given second highest priority, followed by legal and finally ethical responsibilities (figure 2).

As most countries in Africa suffer from poverty, external debts, high unemployment rates and shortage of FDI, the economic responsibility of companies is considered most important. The reason why philanthropic responsibility is regarded the second most important layer instead of the last corresponds to these economic challenges. The socio-economic needs of societies in which companies operate are often rather large; making philanthropic activities expected of businesses. Companies operating in African countries also realize they cannot succeed in societies that fall short, hence use philanthropy to improve conditions in surrounding communities. Furthermore, as regulatory frameworks on responsible business are generally lacking, philanthropy is an easy responsibility option and is done when needed and when financial resources are there. Legal responsibility has a lower priority in the African context because in most of Africa the legal infrastructure is poorly developed, as human rights and other humane issues are often not incorporated in legislation, and corruption is still widespread (Mwaura, 2004; Visser, 2006). Ethical responsibility is argued to have the least priority in the African context mainly due to the general reality of corruption that is ingrained in many African countries (Visser, 2006).

Figure 2: Africa's Corporate Social Responsibility Pyramid.



Source: Visser, 2005

### 2.3.2 The four arenas of CSR

CSR and responsible business are frequently categorized according to the four key dimensions of CSR, marketplace, workplace, community and environment, advanced by Crane et al. (2008). The marketplace dimension refers to responsible activities related to the quality of products produced, the resources used for these products and the impact of these products in terms of health and safety on consumers and society. The main stakeholders involved in marketplace activities are consumers, other businesses, shareholders and clients. The workplace dimension refers to activities associated with the internal functioning of a company. For example the workforce and working conditions, health and safety and equal opportunities. The environmental dimension refers to responsible activities related to environmental pollution, energy and waste management, resource security and recycling, and ecological conservation. Finally, the community dimension refers to activities of philanthropic nature and encompasses donations to schools, hospitals, orphanages etc. This type of responsibility is often performed as a means of improving a company's image (Crane et al., 2008).

### 2.4 DRIVERS AND MOTIVATIONS OF RESPONSIBLE BUSINESS

In 1991, Wood revisited the four dimensions of CSR of Carroll's (1991) and extended it with issues related to the determinants motivating responsible behaviour, the processes of responsible behaviour (responsiveness) and the performance outcomes or impact of responsible business (table 1). By doing this Wood placed the concept of responsibility into a broader context. This section will mainly focus on the determinants motivating responsible behaviour. Wood identifies 3 principles that motivate a company's responsibility at three levels, the institutional level, the organizational level and the individual level. Motivations at the institutional level refer to adopting responsibility approaches out of credibility and social legitimacy. Motivations at the organizational level, or public responsibility, refer to the adoption of responsibility approaches in order to conform to the companies' stakeholders. Motivations at the individual level refer to the adoption of responsibility approached out of self-motivation and personal interest, instead of societal pressures (Carroll, 1991; Jamali & Mirshak, 2006; Gilbert, 2008). The processes of responsible behaviour that Wood identifies are environmental assessments, stakeholder management, and issues management. Furthermore, the performance outcomes as determined by Wood are the social impacts of responsible behaviour, the social programs used to implement responsible activities and the policies developed by companies to manage social issues and stakeholder interests (Jamali & Mirshak, 2006).

*Table 1: The corporate social performance model*

<b>Principles of corporate social responsibility</b>
Institutional principle: legitimacy
Organizational principle: public responsibility
Individual principle: managerial discretion
<b>Processes of corporate social responsiveness</b>
Environmental assessment
Stakeholder management
Issues management
<b>Outcomes of corporate behavior</b>
Social impacts
Social programs
Social policies

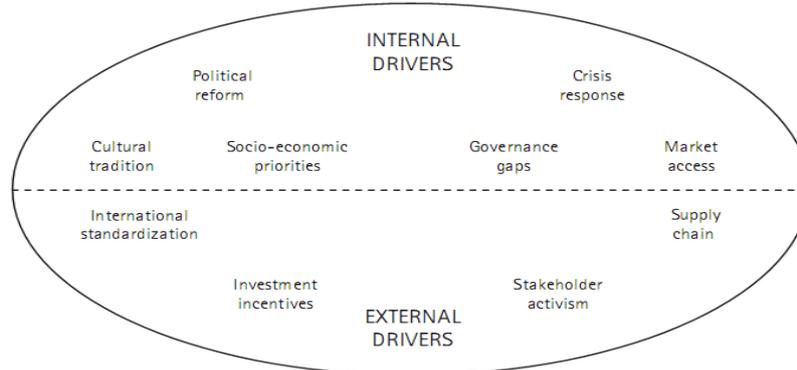
*Source: Wood 1991*

The motivations driving responsible business have also been categorized by Maignan and Ralston (2002). They identify the three motivations, performance-driven, stakeholder-driven, and value-driven, that are rather similar to the motivations of Wood (1991). The value-driven motivation is part of a company's culture, or an expression of the company's core values. Performance-driven is a motivation that is part of a company's economic operations, a tool to improve its competitive position and financial performance. Finally, stakeholder-driven responsible business is generally a response to the

pressure of one or more stakeholder groups on the responsibility of the company (Maignan & Ralston, 2002).

Visser (2008), in addition, argues that to find out what makes responsible business in developing countries different from those in developed countries there is a need to examine the drivers of responsible business in developing countries. He identifies ten major drivers that can give an insight into how responsible business is perceived and practiced in these countries. These ten drivers are categorized into internal or local drivers, pressures from within the country, and external drivers, pressures with a global origin (Visser, 2008). Figure 4 illustrates these ten internal and external drivers of responsible business and they are briefly discussed below.

Figure 3: Drivers of responsible business



Source: Visser, 2008

The internal driver cultural tradition is based on the idea that that in many countries and regions, responsible business is strongly linked to cultural and societal traditions and local business ethics. This was also concluded by Amaeshi et al. (2006) after having done empirical research on responsible business in Nigeria. The internal driver political reform refers to the notion that responsible business cannot be separated from the socio-political situation in an area or country. In addition, the socio-economic environment or priorities in which firms operate often directly shape responsible business practices. Governance gaps are a frequently mentioned driver of responsible business practices, which is a means to fill gaps left by weak and corrupt governments. Finally, crisis response refers to the social, economic, environmental and health crisis in a country that drive responsible behaviour (Visser, 2011).

The external driver market access refers to the notion that responsible business can be seen as an enabler for enterprises to access markets in other regions in the world. International standardization is linked to the driver market access and is based on codes, guidelines and standards that drive responsible behaviour. Responsible business is often driven by socially responsible investments, where funds have requirements on environmental, social and ethical issues attached. Stakeholder activism refers to the pressure different stakeholder groups put on the business operations of a company. Finally, supply chain integrity, refers to the idea that responsible business practices of mainly small and medium sized enterprises (SMEs) are triggered by requirements inflicted by large companies or multinationals in their supply chain (Visser, 2011).

## 2.5 STAKEHOLDER INFLUENCE

The concept of responsible business is largely linked to a business's stakeholders and to the drivers and motivations of responsible business (Carroll, 1991). Companies have stakeholders, groups of individuals who benefit from or are harmed by the activities of the company. These stakeholders can be groups at the local, national and global level that have some sort of stake in the company's business operations. Examples are employees, local communities, the environment (a silent stakeholder), suppliers, customers, local or national government, NGOs, global institutes (UN), or a company's

network and partnerships. Employees for instance have their jobs and their livelihoods at stake, hence expect fair wages, humane working conditions and security in return for their labour. Suppliers are essential to a company's success because the products supplied influence the product quality and price. In turn the company is a customer of the supplier and is therefore vital to the survival of the supplier. On the other hand, customers are important stakeholders because they contribute money to receive the product of the company. However if a customer is no longer satisfied with the product because a better product quality or lower price is demanded, money will flow to other companies. Local communities generally give a company the permission to perform its business operations in that location, expecting that the company will not expose the community to pollution, toxic waste etc., and in turn the community benefits from the socio-economic contributions of the company (Freeman, 1984).

Freeman (1984) with his publication '*Strategic Management: a stakeholder approach*' is generally regarded as the founder of stakeholder theory. Freeman argues that responsible business should take into account internal and external groups that influence and are influenced by the company's business operations. As these business operations have economic, environmental and social impacts on local and global societies, companies are expected to manage responsibly the interests of their stakeholders (Mitchel et al., 1997; Jamali, 2008). By the end of the decade, many researchers were using stakeholder ideas when examining responsible business (Longo et al. 2005, Italian SMEs, Abreu et al. 2005, enterprises in Portugal, Uhlaner et al., 2004, Spanish context, Papasolomou et al. 2005 businesses in Cyprus).

Longo et al. (2005), in their assessment of CSR of Italian SMEs, identified the demands and expectations of key stakeholders and categorized them into value classes. Companies in their study were considered responsible if they measured up to at least half of demands identified for each stakeholder. A similar stakeholder approach was also used by Papasolomou et al. (2005) for Cypriot businesses. They identified six groups as key stakeholders including employees, customers, investors, suppliers, the community and the environment and defined relevant responsibility actions for each stakeholder group (table 2) (Jamali, 2008).

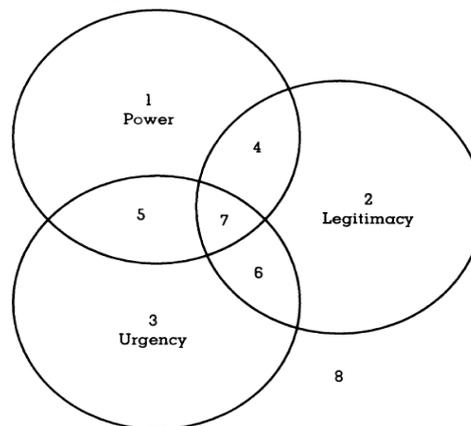
Table 2: CSR actions per stakeholder group

Stakeholder	Actions vis-a-vis key stakeholders
Employees	<ul style="list-style-type: none"> <li>Provides a family friendly work environment</li> <li>Engages in responsible human resource management</li> <li>Provides an equitable reward and wage system for employees</li> <li>Engages in open and flexible communication with employees</li> <li>Invests in employee development</li> <li>Encourages freedom of speech and promotes employee rights to speak up and report their concerns at work</li> <li>Provides child care support/paternity/maternity leave in addition to what is expected by law</li> <li>Engages in employment diversity in hiring and promoting women, ethnic minorities and the physically handicapped</li> <li>Promotes a dignified and fair treatment of all employees</li> </ul>
Consumers	<ul style="list-style-type: none"> <li>Respects the rights of consumers</li> <li>Offers quality products and services</li> <li>Provides information that is truthful, honest and useful</li> <li>Products and services provided are safe and fit with their intended use</li> <li>Avoids false and misleading advertising</li> <li>Discloses all substantial risks associated with product or service</li> <li>Avoids sales promotions that are deceptive/manipulative</li> <li>Avoids manipulating the availability of a product for purpose of exploitation</li> <li>Avoids engagement in price fixing</li> </ul>
Community	<ul style="list-style-type: none"> <li>Fosters reciprocal relationships between the corporation and community</li> <li>Invests in communities in which corporation operates</li> <li>Launches community development activities</li> <li>Encourages employee participation in community projects</li> </ul>
Investors	<ul style="list-style-type: none"> <li>Strives for a competitive return on investment</li> <li>Engages in fair and honest business practices in relationships with shareholders</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Engages in fair trading transactions with suppliers</li> </ul>
Environment	<ul style="list-style-type: none"> <li>Demonstrates a commitment to sustainable development</li> <li>Demonstrates a commitment to the environment</li> </ul>

Source: Jamali (2008)

While the main principle of stakeholder theory is that all stakeholders matter and that enterprises should balance the interests of all stakeholders, this balancing of interests has proven to be difficult to realize in practice. Instead of undertaking action on all stakeholder demands, enterprises are in practice often constrained by a lack of human and financial resources hence have a tendency to prioritize their stakeholders (Jamali, 2008). Mitchell et al. (1997) argue that there is a degree to which companies give priority to their stakeholders, defined as stakeholder salience. Stakeholders are prioritized by the amount of influence they have on the company, which is determined by the amount of attributes they possess. The attributes distinguish are power, an actor can get another actor to do something that it would not have done otherwise, legitimacy, a generalized assumption that the actions of an actor are desirable and appropriate, and urgency, the degree to which stakeholder claims require immediate attention (figure 4). The low salient groups (areas 1, 2, 3), which possess only one attribute, are called latent stakeholders. The middle salient groups (areas 4, 5, 6) possess two attributes and are called expectant stakeholders. The group that possesses all three attributes are the highly salient stakeholders (area 7) (Mitchel et al., 1997). The stakeholders that possess the attribute legitimacy but have no power or urgency (area 2) are of particular interest in responsible business because according to Carroll (1991) they are generally receivers of philanthropic types of responsibility.

Figure 4: Stakeholder classes



Source: Mitchell et al. 1997

## 2.6 MULTINATIONALS VERSUS SMES

The companies generally involved and leading in responsible business practices are multinational corporations (MNCs) and large companies. Overall, small and medium-sized enterprises (SMEs) do not dominate the responsible business arena, often because of a lack of sufficient financial and human resources needed to implement responsible business activities. In addition, many responsible business tools, particularly codes of conducts and value chain standards, are not designed for SMEs, cost wise and requirement wise. However, in most developing countries, SMEs represent over 90% of enterprises and account for 50-60% of the employment in a country. Furthermore, SMEs are particularly important in contributing to growth and development in developing countries because they generally use more labour-intensive production processes and provide development opportunities through value adding activities (Fox, 2005).

For small and medium sized enterprises the starting point of responsible business practices has been through the supply chain requirements of large companies. This is especially the case in export oriented companies and sectors in which certain codes and guidelines are necessary. The large companies aim to mitigate their negative impacts on the environment and society by imposing requirements on their suppliers and in some cases even suppliers of suppliers. However, the issue that such supply chain standards can easily lead to the exclusion of SMEs in developing countries from important international and national markets is the main critique of the current responsible business

agenda (Fox, 2005). In light of this discussion it is of great importance to include SMEs and their responsible business practices into empirical studies.

## 2.7 RESPONSIBLE BUSINESS AND THE VALUE CHAIN

In recent years there has been a renewed focus on responsible business. As the nature of many business relations is changing to increased engagement in value chains across national borders, the concept of responsible business no longer covers only the individual company but also the entire value chain in which a company operates. Companies are expected to take responsibility for the economic, environmental and social impact of their actions in the whole value chain, for instance ensuring that their suppliers are also taking responsibility for their economic, environmental and social impacts on the value chain and, when necessary, to help them to improve. Close collaboration, with suppliers and producers, up the value chain and with customers and consumers down the value chain has therefore become essential (Boomsma, 2008).

Tallontire and Greenhalgh (2005) argue that the nature of adopting responsible business practices can be very different at different part of the value chain. Up the value chain, at the producer end, the benefits of acting responsible and applying responsible business practices are largely motivated by cost savings on for instance electricity, a better management system and motivated by obtaining better access to international markets. For the retailer, the benefits are of more commercial nature and entail the protection of the retailer's image and reputation, also known as image-branding. In addition, the stakeholders close to the end consumers will also have this commercial focus of protecting their reputation. On the other hand, importers of products operate further from the end consumers and probably feel less pressure to maintain their reputation. The benefits of responsible business are less for small and medium sized companies, small-holder farmers and out growers. Although there are potential benefits for these stakeholders, as increased productivity, responsible business is often solely seen as a burden. In addition, motivations for responsible behaviour are low when suppliers are uncertain their access to markets and buyers is sustained and when the financial burden of responsible business is too high. Moreover, the business benefits of applying responsible business practices vary for different stakeholders in the value chain (Tallontire & Greenhalgh, 2005).

Over the past decade the amounts of codes of conduct, certification labels and other standards in global food chains has grown considerably. These codes and labels are generally based on local legislation and international conventions, standards, and principles, such as United Nation's (UN) Global Compact, ISO 14001, Global Reporting Initiative, and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. Most of these codes originated in developed countries, generally reflecting western concerns, but are applied in both developed and developing countries. Codes of conduct and standards have increasingly become one of the main tools used to show responsible behaviour, particularly for large international companies. Most codes in essence encompass the same topics, labour conditions (minimum wages, amount of working hours, safe and healthy working conditions etc.), environmental management (waste & water management, amount of pesticides and fertilizers used, deforestation etc.), social conditions (labour unions, community involvement, compliance to local laws etc.). There are however small differences between these standards, as the sector for which the standard is intended and the emphasis on certain topics, the reach of labels, and their origins and scope (Tallontire & Greenhalgh, 2005).

Generally, compliance to these certification labels means a company is obligated to comply to all the requirements in a label, is audited every year to make sure the company still complies and is obliged to pay a rather large sum of money to receive the label and label logo. Although these codes and labels are entirely voluntary, it is argued that the implementation of these codes are often essential for companies to prevent pressure from different stakeholder groups and to be able to access new or maintain existing markets (Anderson et. al., 2009). As the labels are generally intended for multinationals and large companies and the costs of certification are high, small companies or farmers

that cannot afford the high costs of certification are pushed out of the value chain. However, in recent years some labels have acknowledged this problem and have started to make the labels more accessible for small companies and farmers. One of the ways this is established is by certifying organized farmer groups, meaning farmers can split the certification costs among the whole group. However, because this is a rather recent development the successes and failures of the approach have not yet been established. Furthermore, it is increasingly argued that these certification labels are just a means for the developed countries to sustain their economic position and influence on the world market (Anderson et. al., 2009).

Despite the amount of research on codes and certification labels, little is known about both their social and economic impact. Doubts have been raised about the efficiency of these labels and the impact on different stakeholders. Hence, there is a need to assess the real impact, and the added value, of applying responsible business and certification labels in value chains. Research and empirical evidence is needed to find out what this real impact is on different stakeholders, especially the small companies and farmers, in the value chain (Boomsma, 2008).

## **2.8 THE RESPONSIBLE BUSINESS AND SUSTAINABLE DEVELOPMENT DEBATE**

Business is increasingly portrayed as part of the solution to the development of developing countries and responsible business initiatives are seen as the bridge connecting the areas of business and development (Blowfield & Frynas, 2005). However, many development practitioners and scholars are concerned about the lack of empirical evidence supporting this claim. The rather narrow focus of responsible business and the failure to tackle structural issues of underdevelopment have raised questions about whether enterprises, despite their best interests, can make long-term sustainable contributions to development. In the debate of responsible business and development there are two groups, those who see responsible business as leading towards sustainable development and those who see responsible business as having a negative influence on development. Sagebien and Whellams (2010) have categorized the arguments of those that argue responsible business is good development and those that argue it is bad development (table 3).

Arguments often given for the reason why responsible business can be considered good development is that it maximizes spill over effects of Foreign Direct Investments (FDI). For example, it is argued that governments can better ensure the contribution of foreign investors to development by adopting inward investment policies, like requirements for local economic linkages, technology transfer and public-private partnerships. In addition, Blowfield (2005) argues that responsible business can be effective in developing countries because it can fill government gaps and reduce the financial burden of these governments. Proponents also argue that because responsible business initiatives are currently more advanced, they are increasingly making a greater contribution to development than in the past (Sagebien & Whellams, 2010).

The opponents of responsible business and development argue responsible business has a key weakness that needs changing. Responsible business treats values as commoditized labour, capital rights, as universal norms while often they contradict norms of local communities. In addition the notion that responsible business can deliver long-term sustainable development is debated, as currently the market generally rules in favour of companies focussed on short-term responsibility demands and solutions (Sagebien & Whellams, 2010).

*Table 3: Summary of the CSR in a development context debates*

CSR IS GOOD DEVELOPMENT	CSR IS BAD DEVELOPMENT
<ul style="list-style-type: none"> <li>• Maximizes spillover effects of foreign direct investment (FDI)</li> <li>• Addresses governance gaps</li> <li>• In some areas, corporations can have greater resources than governments</li> <li>• Decreases financial/regulatory burden of the state</li> <li>• Contributes to Millennium Goals and to sustainable development</li> <li>• Can introduce higher levels of performance than those required (or enforced) by local law</li> <li>• Promotes corporate/stakeholder cooperation and coordination towards development goals</li> <li>• Key component in the creation of supply chains that lead to inclusive markets</li> <li>• Reduces social and political conflict and prevents/remediates environmental damage</li> </ul>	<ul style="list-style-type: none"> <li>• Ignores the structural dimensions of poverty and inequality</li> <li>• Usurps the proper role of government</li> <li>• Though formulation involves stakeholder dialogue, the effect of inherent unequal power relations is left unexamined</li> <li>• Calls for change only within the current capitalist framework</li> <li>• Business and development have conflicting agenda</li> <li>• The business case for CSR is duplicitous</li> <li>• Accountability is needed</li> <li>• Corporations lack development expertise</li> <li>• Mainstream CSR agenda is North-driven and gender and race myopic</li> <li>• No matter how good, CSR cannot ever be sufficiently broad based or long lasting because it is voluntary and discretionary</li> <li>• In line with the strategic firms of the firm, and not with the developments needs of communities/states</li> </ul>

*Source: Sagebien and Whellams, 2010*

According to Idemudia (2011) there are three interrelated factors that make it difficult to prove whether responsible business can or cannot generate sustainable development. First is the lack of clear definitions and guidelines on responsible business and sustainable development. Second, there is too much emphasis on the business side of responsible business and too little attention to the benefits in the local context. Third, there is limited focus in the empirical research agenda on the real impact of responsible business on local sustainable development (Sagebien & Whellams, 2010).

### 3 KENYAN BUSINESS CLIMATE

From the theoretical framework presented in the previous chapter, it becomes clear that responsible business is very context specific. Therefore, when discussing responsible business practices of Dutch enterprises in Kenya, the context of Kenya in terms of history, economy, politics, demography should be taken into account. This chapter provides an overview of the main contexts that are relevant for responsible business practices of Dutch enterprises in agribusiness in Kenya. The first section will discuss the geographic and demographic context of Kenya, followed by the economic and political context. As the research focus is put on enterprises active in agribusiness in Kenya, some background insights into the sector will be given. Furthermore, some clarifications will be provided on the activities and the interests of the Dutch government and the Dutch embassy in Kenya on responsible business and agribusiness in Kenya. Finally a brief overview of past research results on responsible business practices in Kenya will be presented.

#### 3.1 GEOGRAPHIC AND DEMOGRAPHIC CONTEXT

Kenya is a country situated on the east coast of Africa and has a land area of 582,646 sq. km. The capital city, Nairobi, lies in the south of the country and provides a base for many international businesses and organizations. Kenya borders the countries Somalia, Tanzania, Uganda, Ethiopia, and Sudan (map 1). Kenya has two formal languages, English and Kiswahili, and has over 40 tribal languages of the many ethnic groups living in the country. An important feature of the country is its location on the equator and its diverse climate. The climate varies from a hot and humid climate at the coast, to a very dry climate in northern and north-eastern parts of the country. The landscape ranges from low coastal plains to central highlands of about 3,000 meters in the Great Rift Valley. The combination of climate and landscape, and the great availability of water due to the many lakes, make Kenya the ideal location for agricultural activities. However, despite these lakes the country has severe problems with droughts in the dry seasons. On the other hand, during the wet season the country is challenged with many floods (Voorpijl, 2011; Wolff, 2011). The population of Kenya is comprised of 41 million people. The official unemployment rate is 40%, and 55% of the population is aged between 15 and 65. The Kenyan workforce is approximately 11 million people, of which 75% is active in agriculture, mainly as smallholder farmer (Wolff, 2011).

Map 1: map of Kenya



Kenya's geographical location and its infrastructural connections are essential for its positive international position. Compared to Kenya's neighbours it is known for the best transportation links, communications infrastructure, and trained personnel of East-Africa, which is crucial to many foreign investors and businesses. The seaport of Mombasa provides shipping services to harbours all over the world, but is in great need of logistical improvements. The presence of the port had made Mombasa the second largest city, after Nairobi, in terms of population and business. The international airport Jomo Kenyatta in Nairobi is the busiest airport in East Africa with regular commercial and cargo flight connections to countries all over the world. The airport provides several cargo facilities with a capacity to handle 200.000 tons of cargo annually (Voorpijl, 2011, Wolff, 2011).

### 3.2 ECONOMIC CONTEXT

Prior to its independence in 1963 Kenya's was largely dependent on agriculture. After independence the Kenyan government promoted rapid economic growth through public investments, the encouragement of smallholder production, and incentives for industrial investments. Today, the GDP of Kenya is US\$ 31.4 billion, of which agriculture accounts for 23%, manufacturing for 15% and services for 62%. The leading exports of Kenya in 2010 were tea (23%), horticulture (15%), manufactured goods (12%), raw materials (4%), coffee (4%) and oil products (2%). Almost half (46%) of Kenya's exports for 2010 went to other African countries. Within Africa, the main export destinations were Uganda (12%), Tanzania (8%), Egypt (5%) and Sudan (4%). Outside of Africa, the main export destinations were to the United Kingdom (11%), the Netherlands (7%), the United States (5%), Pakistan (5%), and the United Arab Emirates (4%) (AEO, 2011).

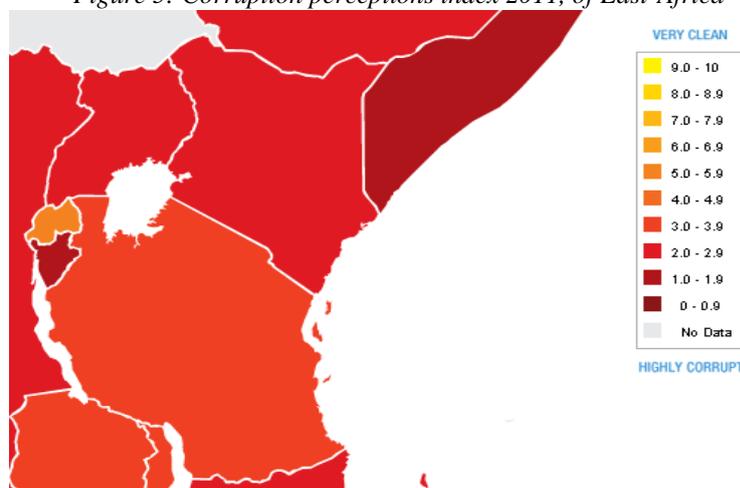
In terms of foreign direct investment (FDI) inflows Kenya is one of the most favoured destinations in East-Africa and has a long history. Particularly since 2007, when the Kenyan government explicitly focussed on attracting FDI, by establishing free trade zones and improving infrastructure and business incentives. The main sources of FDI in 2011 were Australia (KSH 16 billion), Israel (KSH 4 billion), the United Kingdom (KSH 738 million) and India (KSH 434.3 million) (AEO, 2011; World Bank, 2011).

Since 2002 the Kenyan government has a policy in place stimulating foreign investment into the country, and imposing no special requirements on foreign investors. With this policy the Kenyan government hopes to increase foreign exchange earnings and promote linkages and technology transfer in international value chains. The national and local governments of Kenya are also continuing to promote Export Processing Zones (EPZ) to attract investments in agribusiness, textiles and electronics. These EPZ zones are tax free zones in which companies holding TIC certificates are allowed 100% foreign ownership, value added tax (VAT) and import duty tax exemptions are made, and companies receive an automatic permit for the employment of five foreign nationals (Wolff, 2011).

In 2008 Kenya, Tanzania, Uganda, Burundi and Rwanda formed the East African Community (EAC). The member states of the EAC agreed to allow zero-rated entry of raw materials between EAC member countries, to allow a 10% tax on semi-processed goods, and a 25% tax on finished goods. In 2007 the EAC member states also signed an economic partnership agreement with the European Union (EU). This economic partnership agreement stated that exports from the EAC entering the EU are allowed tax reductions because the countries are classified Least Developed Countries (LDC). Kenya has benefited significantly from this economic partnership agreement, however as the country is no longer classified as a LDC this could lead to tax restrictions up to 10% and the liberalization of trade between the EU and Kenya. Although the economic partnership agreement has been renewed multiple times, at the moment negotiations towards a full economic partnership agreement are still in progress. For Kenya it is rather uncertain how long the EU will continue with the preferential trade relations and what the trade agreement between the two will look like in the future (Wolff, 2011).

The doing business index of the World Bank (2012) sheds light on how easy or difficult it is for a local entrepreneur in a certain country to start and keep a business running while complying with country specific regulations. Countries are ranked from 1 to 183 by the ease of doing business index and Kenya was ranked 109<sup>th</sup>. Especially the issues of paying taxes (166), trading across borders (import and export) (141), registering property (133), starting a business (131) and enforcing contracts (127) are most challenging for small to medium sized businesses operational in Kenya. This is mainly due to the many procedures, the amount of time and the high prices of these regulations (Doing Business Index, 2012). The corruption perceptions index of transparency international (2011) in addition does not put Kenya in a good light. It shows that Kenya is ranked 154<sup>th</sup> of the world regarding the level of corruption (figure 5). The perceived level of public corruption in 2011 in Kenya was level 2.2 out of 10, and was perceived as most corrupt compared to the other East African countries, except Burundi which had a level of 1,9. Corruption is still a mayor problem for businesses in Kenya, particularly corruption within the government and within the police is prevalent (Transparency International, 2011).

Figure 5: Corruption perceptions index 2011, of East-Africa



Source: transparency international, 2011

### 3.3 POLITICAL CONTEXT

Kenya has had an unstable political past, from independence from British rule in 1963, the appointment of Jomo Kenyatta as the first president, the one party rule under Moi, to the rule of Kibaki in 2002. The last elections of Kenya in 2007 resulted in major civil unrest and violence. In December 2007, the current president Kibaki, who is from the Kikuyu tribe, was announced winner of the presidential elections, with a small margin over the presidential candidate Raila Odinga, who is from the Luo tribe. This announcement resulted into widespread violence mainly between the two tribes and in several parts of Kenya during January and February 2008. This post- election violence severely damaged Kenya's status as a political stable country (Voorpijl, 2011).

In May 2008 the Kenyan Government launched 'Vision 2030' with the aim to transform Kenya into an industrialized, middle income country that provides for its citizens. Vision 2030 is implemented through five-year Medium-Term Plans (MTPs), starting with one covering the period 2008-2012. With this vision the Kenyan government hopes to reach global competitiveness, with a special focus on attracting more FDI. Examples of reforms implemented to attract more FDI are establishing more free trade zones and improving infrastructure and business incentives. The agriculture sector is identified as one of the key economic sectors and has an annual growth objective of 5 to 7%. The aim is to create an institutional environment promoting investments, encouraging private sector involvement in agriculture and increasing the agricultural productivity. Despite the importance of horticulture and floriculture in the agricultural sector, the subsectors have not had a

policy to guide their growth and sustainability. The good performance of these subsectors over the last decades is ascribed to the fact that they are driven by the private sector. The ministry of agriculture however has facilitated the formulation of a National Horticulture Policy in cooperation with multiple stakeholders. This has resulted in a final draft that still awaits approval by parliament, scheduled in the course of 2012 (Wolff, 2011).

Kenya's labour laws provide many safety nets and benefits for Kenyan labourers, with laws in place addressing for instance healthy working conditions, maximum working hours, minimum wage, and workers' rights. The normal work week is 40 hours and overtime is paid 150% or even 200% of the worker's salary. A minimum wage scale is set for different job positions and sectors and each year, these salaries are required to increase by 12 %. In addition, benefits, ranging from housing to travel allowance, account for 25 to 50 % of a Kenyan worker's compensation package. The labour law furthermore entails detailed environmental, health, and safety standards, but are not strictly followed up on in practice (see box 3.3.1) (Wolff, 2011).

### **Box 3.3.1 KENYAN LABOUR LAWS**

The Kenyan employment act Cap.226 was established in 2007 and revised several times thereafter. The act includes procedures on employment principles as discrimination, on employment contracts and agreements, on the protection of wages, on the rights and duties in employment, on the termination and dismissal of employment, on the protection of children, on the insolvency of an employer, on employment records, on employment management, on foreign contracts or services, and on dispute settlement procedure. No person is to be employed under a contract or service except in accordance with the provisions of this Kenyan employment act. Several of these sections will be further elaborated on below (Employment act, 2012).

Minimum wage is set for 12 different categories of employment and different sectors. For instance for unskilled labour the minimum wage for 2012 is KSH 4,258 a month (about 42 euro's a month). A house servant or cook has a minimum wage of KSH 4,861 a month. A tractor driver's minimum wage is KSH 5,397 a month and a farm foreman has a minimum wage of KSH 7,681. Although these salaries are very little compared to salaries in Europe, Kenyans are general very pleased with these amounts and can make ends meet. Particularly because employers are at all times obliged to provide reasonable housing accommodation for each of the employees at or near the place of employment, or pay the employees a sufficient housing allowance in addition to the salary. The amounts of housing allowance range from KSH 1500 a month in small municipalities to KSH 2000 a month in the cities. In addition to housing allowance, employers are obliged to provide their employees with either home-work transportation or transportation (safari) allowance (Employment act, 2012).

Terminating an employee contract has been made rather difficult by the employment act. Employers are to ensure termination is done on fair grounds, which could be on grounds of misconduct, poor performance or physical incapacity, and need to provide evidence supporting the given reason. If evidence is non-existent the termination is deemed unfair, meaning the employer will need to pay the employee a compensation (Employment act, 2012).

Regarding sick leave or maternity leave employees are entitled to three months of maternity leave with full pay and depending on the employment period a reasonable amount of sick days with full pay. In addition, employers are entitled to ensure the provision of sufficient and proper medicine for employees during illness and if possible, medical attention during serious illness.

The employment act also allows foreign investors to employ expatriate staff in management positions when local Kenyans do not have the specific skills needed for the job. Such a contract needs to be signed by the party involved and confirmed by a fully satisfied labour officer (Employment act, 2012).

Kenya has not had a single and clearly defined National land policy (NLP) since independence, which has led to a complex land management and administration system. To overcome the most serious issues of land and environmental problems, the government has formulated a land policy act, which labels all land as public, community or private. Under this act, all land acquisitions must be made public and communicated to surrounding communities so that possible objections can be made. The act also ensures that land used by foreign investors complies with Kenyan environmental standards (see box 3.3.2). For the horticultural sector, the Kenyan government and Kenyan environmental organizations closely follow growers' progress in making their operations more sustainable for the environment. Enterprises are audited every year on their environmental and sustainability operations. Particular emphasis is being put on the environmental situation in the Lake Naivasha region (Wolff, 2011). Furthermore, the act forbids dealing in agricultural land when there is no consent from the land control board. In addition, according to the Act the board is to refuse consent when the future owner of the land is not a citizen of Kenya (FIAN, 2010).

#### **Box 3.3.2 KENYAN ENVIRONMENTAL LAWS**

The Environmental management and co-ordination act was established in 1999. The act includes procedures on protection and conservation of the environment, on environmental impact assessment, on environmental audits and monitoring, on environmental quality standards, on environmental conservation orders and environmental easements, on inspection analysis and records, on international treaties, on conventions and agreements, on national environment tribunal and on environmental offences. Several of these sections will be further elaborated on below (Environmental act, 2012).

By this act it is not allowed for anyone without approval of the Director-General, which is given after an environmental impact assessment, to for example drain any lake, river or wetland, to introduce any plant or animal, whether alien or indigenous in any river, lake or wetland, and to deposit any substance in a lake, river or wetland (Environmental act, 2012).

The government is to provide for measures regarding environmental management, protection and conservation in respect of any area at risk of environmental degradation. Before permits and licenses are granted an environmental impact assessment is to be made and approved on by the National Environmental Management Authority (NEMA). In addition, NEMA performs environmental audits and monitoring every year on all activities that a likely to have a significant effect on the environment and to examine a company's environmental operations and progress (Environmental act, 2012).

### **3.4 AGRIBUSINESS IN KENYA**

Agriculture has, for many years, formed the backbone of Kenya's economy. The sector contributes to 23% of Kenya's GDP, for more than 60% of the total earnings of exports and for about 45% of government revenue, as most products produced within this sector are exported to other countries. The EU is the main importer of Kenya's agricultural products and in particular the United Kingdom, The Netherlands, Germany and Belgium. It is estimated that the sector also has an indirect contribution of nearly 27% of Kenya's GDP through linkages with other sectors, like manufacturing and distribution. Within agricultural the tea sector is most dominant, followed by the coffee sector. The floriculture sector has witnessed large growth rates over the past years, as more and more companies have commenced with the production and the export of flowers (NABC, 2010). In 2010 the agriculture sector earned KSH 77.7 billion (\$945 million) in total horticultural export and these exports have been growing at 10-15% per annum. The Kenyan government furthermore, estimates that the agriculture sector directly employs more than 6 million people (Wolff, 2011).

Over the years several government policies have been designed to increase the contribution of agriculture to Kenya's economic development, through reduced state interference and market

liberalization. The government also extended various tax incentives like the elimination of duties on agricultural exports and a zero-rating policy on all imported inputs necessary for the sector. However, the biggest challenge in the sector is the European Union's regulatory system and the high standards and requirements for imports coming from outside the EU. Compliance to national and international standards regarding workers safety, labour rights, environmental sustainability, food security and quality are a precondition for European market access. The Kenyan export growers acknowledge this and the majority have ensured certification of their products by one or more quality standards. Common standards in the flower sector include MPS, ETI, GlobalGAP, and the Gold and Silver certifications of the Kenyan Flower Council (KFC). Common standards in the fruit and vegetable sector include GlobalGAP, Fair Trade, HACCP, and KenyaGAP, developed by the Fresh Produce Exporters Association of Kenya (FPEAK). These regulations however, often have negative consequences for small and medium sized companies and small-scale local farmers, since they are generally unable to meet all requirements (Voorpijl, 2001, Wolff, 2011). Despite governmental efforts to improve labour standards and environmental standards, particularly the floriculture sector has been receiving negative media coverage on the labour and environmental conditions in the sector (Wolff, 2011).

### **3.5 THE ROLE OF THE DUTCH GOVERNMENT IN KENYAN AGRIBUSINESS**

Since 2011 the Dutch development policy has increasingly focusing on private sector development in developing countries. The notion is, there is a need for a strong private sector, in order for sustainable growth to occur in developing countries, and internationally active businesses can facilitate in this. The policy is therefore aimed at the creation of an enabling business environment in developing countries, at collaborative investments and public-private partnerships. To find a win-win situation for the Netherlands and for developing countries the Ministry of Foreign Affairs has defined four focus areas that connect worldwide problems with Dutch expertise. These four focus areas are: safety and law, food security, water, and sexual and reproductive health and human rights. In addition, the number of developing countries the Netherlands will be working with has been decreased from 33 to 15 countries (Focusbrief, 2011).

Kenya is one of these 15 countries and focus in this country is put mainly on the themes water, food security and safety. Kenya is classified as a transition country, a country that has a good and stable economic growth and is expected to be able to handle its own development, meaning the Dutch ODA budget for Kenya will decrease in the following years and focus will only be put on private sector related activities. For this reason the Embassy of the Netherlands in Nairobi will for the following years focus on private sector development projects within the themes water, food security and safety (Focusbrief, 2011). In the Dutch Embassy's strategic plan of 2012-2015 for Kenya, the Dutch interest in private sector is strong because many Dutch agricultural entrepreneurs have been moving their production facilities to Kenya since the 1980s. These enterprises have increasingly been contributing to the development of an internationally renowned floriculture industry in Kenya, which generates over 300,000 jobs directly and indirectly. The more traditional agricultural practices on the other hand, have suffered from mismanagement and ineffective government policies, making it necessary for Kenya to import food. However, reforms in the last few years have created more business opportunities for small-scale Kenyan farmers. The Embassy of the Netherlands will also in the coming years support a number of activities to further improve the agricultural business climate and to support labour intensive agro-food value chains that have growth potential. For instance, the aim is to support 100,000 potato and horticulture smallholder farmers in Kenya to further benefit from domestic and regional markets. In the coming years, The Embassy of the Netherlands will furthermore invest heavily in assistance to Dutch businesses operational in Kenya (Embassy of the Netherlands, 2011).

### 3.6 RESPONSIBLE BUSINESS IN KENYA

There have been few empirical studies on responsible business in Kenya. Kivuitu and Fox (2005) however, provide some insights into responsible business in the country. According to them, although the term responsible business or corporate social responsibility (CSR) is relatively new, the notion that businesses have a responsibility to society and the environment is embedded in Kenyan society. According to Kivuitu and Fox's research several initiatives were mentioned that promote responsible business in Kenya, the UN Global Compact network in Kenya, the Kenyan governments Vision 2030 and the King report (Kivuitu & Fox, 2005). The global compact initiative was established in 2005 and is a platform for enterprises to engage in pro-poor business activities. The initiative is based on the ten principles of the UN Global Compact, a guideline for companies in the areas of human rights, labour, environment and corruption (UNGC, 2012). Furthermore the Kenyan government's Vision 2030 was argued as promoting responsible business in Kenya because labour and environmental standards are well established (Kilimo, 2007). In addition the King report (the King Code on Corporate Governance in South Africa) that was implemented in 1994 in South Africa, is seen as an example to many companies and organizations in Kenya. The King report was the first global corporate governance code to mention stakeholders and to stress the importance of business accountability beyond the interests of shareholders (Visser, 2006). A strong regulatory framework at the National level that encourages responsible business in Kenya is still non-existent. This is mainly because the Kenyan government is reluctant to impose responsible business regulations on companies in fear of discouraging foreign direct investments (FDI) inflows. Rather, at the national level, organizations as Ufadhili trust are increasingly raising awareness and promoting responsible business practices in Kenya (Kivuitu & Fox, 2005; Gilbert, 2008).

Research done in the past by Muthuri & Gilbert (2011) and by Imani Development or GTZ (2009) found that responsible business practices in Kenya are generally associated with philanthropy. Companies generally make donations to help alleviate social problems, generated by the notion of giving back to societies. On the other hand, in Kenya there is also a company tradition of using philanthropy as a means of buying off stakeholders in accepting the company's activities. Corruption is argued to be a major obstacle in achieving responsible business in Kenya (Gilbert, 2008; Imani Development, 2009). The study done by Imani development and GTZ on CSR in Africa revealed that the key principle for companies in Kenya engaging in CSR is to improve the company's image and to engage in socio-economic development in societies in which the company operates. The most common areas for CSR were health, education, training and environment, while the least common areas were enterprise development, human rights and labour rights. The study in addition takes a focus on the four key arenas of CSR, marketplace, workplace, environment and community, as identified by Crane et al. (2008). The research found that the interviewed companies interviewed focussed for a great deal on community activities, while marketplace, workplace and even environmental responsibility activities were of very little importance (Imani Development, 2009).

In addition, the study done by Muthuri and Gilbert (2010) on the CSR practices of several multinational and large companies operational in Kenya found that community related activities or philanthropy were given highest priority, followed by environmental activities. Several companies also mentioned the compliance to laws, codes of conduct and certification labels as part of their responsibility activities. The majority of the researched companies viewed CSR as value-driven, as being part of a company's culture and core values. On the other hand the least mentioned motivation for responsible behaviour was performance-driven activities, to improve a company's financial performance and competitive position. Some companies explicitly mentioned stakeholders as being a driver for CSR but these were mainly international companies and operational in the sectors finance, technology and transportation. Muthuri and Gilbert thus suggest that pressure exerted by stakeholders varies across sectors and geographical levels (Muthuri & Gilbert, 2011).

## 4 RESEARCH OUTLINE

This chapter presents the outline of the research as developed for the primary data collection in Kenya. The first section will discuss the research objective and the research questions. To make sure that concepts used in this research are clear, the main concepts are defined in the operationalization. Third the conceptual model of the research and the related concepts will be presented. Fourth, the research methodology, including the research strategy, the selection of the research area, the data collection and data analysis, will be discussed. Lastly, the limitations and challenges this research faced are presented.

### 4.1 RESEARCH OBJECTIVE AND QUESTIONS

The relevance of responsible business for the developing world has been thoroughly discussed in recent years. The general consensus is that responsible business activities can offer significant opportunities for development for both the company and for the society and country in which it operates. There is a great need however for empirical research on the manifestation of responsible business practices in developing countries. Questions about what determines the similarities and differences of responsible business practices across countries and why responsible business practices change over time, remain unanswered. Furthermore, there is a need to investigate what the impact is of ‘westernized’ responsible business approaches in the context of different types of business and different sectors in developing countries.

In Kenya, responsible business has receiving increased attention during the last decade. As the country is economically growing and has obtained a worthy economic position internationally, domestic as well as international companies are deemed to contribute to the further economic, but also social and environmental development of Kenya. This is particularly relevant in agribusiness, and more specifically in the floriculture sector, where many international and especially Dutch companies are active. As these sectors mainly produce for the international market they are increasingly exposed to international responsibility requirements. Hence, what these approaches involve, what their impact is in Kenya and whether they are indeed contributing to the development of the country needs to be examined.

This research will specifically focus on Dutch companies active in agribusiness in Kenya, in order to contribute to the lacking literature and empirical research on responsible business in developing countries. The aim is to find out how responsible business manifests itself in Kenya and whether it contributes to local development. To do so, the research explores why companies engage in responsible business, how responsible business is practiced, what drives them to engage in responsible business, and how a company’s stakeholders (inside and outside the value chain) are involved in the whole process. Thus, Carroll’s Pyramid of CSR (1991), the drivers of responsible business by Visser (2008) and the stakeholder oriented approach of responsible business are used to provide a basis for this research and will be tested for the responsible business practices in the context of Kenya.

In light of the above, the main objective of this research is, to gain a deeper understanding of the current situation of responsible business practices of Dutch enterprises in agribusiness in Kenya. The main research question of the research therefore is:

*How and why are Dutch enterprises in agribusiness in Kenya engaged in responsible business, and how does this contribute to sustainable local development?*

To address the main research question, the research is divided in five sub questions:

1. *What are the characteristics of Dutch entrepreneurs and their enterprises in Kenya?*
2. *How is responsible business practiced by Dutch enterprises operational in agribusiness in Kenya?*
3. *What are the drivers encouraging and preventing the engagement of enterprises in responsible business, and how do enterprises respond to this?*
4. *How are different stakeholders within and outside the value chain affected by or affecting the*

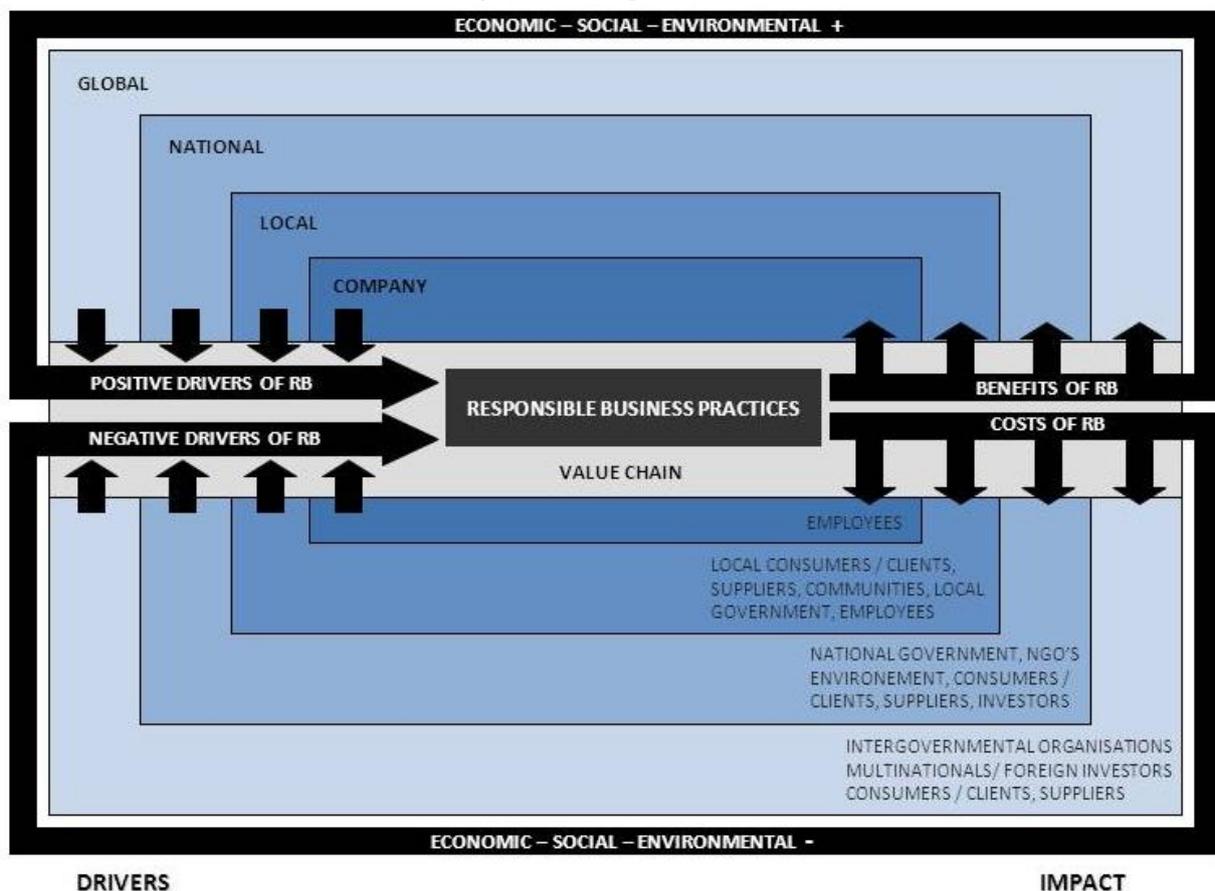
*responsible business approach?*

5. *What is the impact of applying responsible business in the value chain of a product?*

## 4.2 CONCEPTUAL MODEL

The conceptual model (figure 6) presented below visualizes the main concepts that are central to the research. The model illustrates the relationships between the different concepts, in order to create a better understanding of the research topic. The model is comprised of three parts that are fitted together in the model, the value chain of the company, the costs and benefits the company creates as a result of its responsible business practices and stakeholders at different levels of analysis that are impacted but also impact the responsible business practices of the company. The combination of these three components ensures an understanding of the responsible business practices of a company as part of a bigger system and an on-going process. The three parts are further discussed below.

Figure 6: Conceptual model



### 4.2.1 Stakeholders and drivers

The stakeholder perspective takes into account the relationship between a company and the actors that have an influence on or are influenced by the company's activities (Freeman, 1984). These stakeholders are operational at different levels, the company level (employees), at the local level (communities, organizations), at the national level (environment, government, NGOs), or at the global level (global institutes as the UN, international clients and suppliers).

The stakeholders can in addition be drivers preventing or encouraging responsible behaviour of companies. The degree to which a stakeholder can drive the company to engage in responsible business depends on a stakeholder's salience (power, urgency, legitimacy) and the responsiveness of a company (Mitchell et al., 1997). Not only the stakeholders could be drivers of the responsible business practices of a company but as Visser (2008) mentioned certain cultural traditions, socio-economic

conditions and processes at a local to global scale could have an influence as well. The responsible business approach and activities of a company in turn generate costs and benefits that affect directly or indirectly, through the value chain, the stakeholders to a varying degree. These cost and benefits in turn drive the stakeholder to influence the responsible business approach and activities of the company. This is an on-going dynamic process, enabling and changing the responsible business environment for the better, or for the worse.

#### **4.2.2 Benefits and costs of responsible business**

The responsible business practices of a company (or the lack of responsible business practices) can have a positive (benefits) or a negative (costs) effect on its surroundings. These can be classified into environmental cost and benefits, social costs and benefits and economic costs and benefits. What is important is not only the economic or financial results (the bottom line) but also the social and environmental results a company generates with its activities. These economic, environmental, and social costs and benefits have a direct effect on stakeholders of a company and an indirect effect on the value chain of a company. The costs and benefits of the responsible business practices of a company thus directly and indirectly influence the responsible business approach and activities of a company.

#### **4.2.3 Value chain**

The value chain considers all the steps in the production and consumption process, from the raw material extraction (suppliers) at the start of the value chain, to the consumption of a product at the end of the value chain. Consumption and production processes are increasingly intertwined due to the globalization; therefore it is no longer sufficient to research only one stage of the value chain when examining responsible business practices. Instead it is necessary to examine the whole value chain of a certain product as a company's responsible business practices can have a negative (costs) or positive (benefits) effect on the value chain and the different stakeholders that are part of this value chain.

### **4.3 OPERATIONALIZATION OF MAIN CONCEPTS**

Based on literature, several concepts that form the basis of this research are defined in this section. In order to be able to use these concepts, identification is necessary. In addition, after having defined the different concepts, it is possible to measure and analyse data collected on the topic.

#### ***Responsible Business***

There are many concepts today that are used simultaneously with responsible business. There is neither a globally accepted definition of responsible business, nor a list of issues and practice it encompasses. In the context of this research responsible business is defined as the following:

*'The formal and informal ways in which business, next to making a profit, consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement of the developing countries in which they operate, through their business model and activities, while remaining sensitive to prevailing religious, historical and cultural contexts'* (Visser, 2011; Visser et al., 2007)

This definition holds and mentions the different dimensions of responsible business, good governance, economic development, stakeholder responsiveness, shared value in society etc. that are used in this research to define to what extent and how Dutch entrepreneurs are engaged in responsible business.

#### ***Sustainable Development***

The term sustainable development is prone to various definitions. In this thesis the following definition, as defined in the report of the Brundtland Commission 'Our common future' (1987) is used for sustainable development.

*Sustainable development is development that includes an economic growth component, as well as a social and environmental value, and, that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland report, 1987).*

### **Dutch entrepreneurs/Dutch enterprises**

It is not clear-cut which enterprises can be called Dutch and which cannot. There are many categories of Dutch enterprises: Dutch owned enterprises with Dutch management; enterprises in majority owned by Dutch with Dutch management; and Dutch majority shares with non-Dutch management. In addition, some enterprises start as Dutch but get foreign shareholders or are taken over and still have Dutch management. Thus to define who is regarded as a Dutch entrepreneur and what is regarded as a Dutch enterprise the following definitions are used:

*Dutch entrepreneur: 'an individual with the Dutch nationality (first generation) that has (in the past) established (alone or together) an enterprise in Kenya'*

*Dutch enterprise: 'an enterprise that has (in the past) been established (alone or together) by an entrepreneur with the Dutch nationality (first generation), and has a physical location/office in Kenya'.*

### **Agribusiness**

As agribusiness is an important sector in Kenya that contributed a great deal to the GDP of the country, agribusiness was chosen as a focus area for this research. Therefore it is necessary to define which subsectors and enterprises fall under agribusiness. A business operating in agribusiness is defined as the following:

*'a business that earns most or all of its revenues from agriculture, horticulture, extraction of resources, forestry, and food and beverage, and is operational in farming, supplying, processing, manufacturing and/or packaging, retailing, and distribution of products' (businessdictionary, 2012).*

### **Small and medium sized enterprises**

For several previously mentioned reasons it is of great importance to include SMEs and their responsible business activities into empirical research. This research will focus on MNCs and large-scale companies and on SMEs in Kenya, in order to reveal the differences between the two. SMEs are often defined by organizations and companies based on their own criteria, usually using standards as sales turnover and number of employees. In this research the following definition is used to define SMEs in Kenya:

*'An enterprise that has less than 50 employees and an annual turnover below KSH 50 million' (smeinternational, 2012).*

For large companies the following definition is used:

*'An enterprise that has more than 50 employees and an annual turnover of more than KSH 50 million' (smeinternational, 2012).*

### **Export and domestic enterprises**

A difference is made between enterprises that produce for the domestic market and enterprises that produce for the export or international market. To define which companies can be regarded export companies and which companies can be regarded domestic companies the following definitions are used.

*Export enterprise: an enterprise that exports more than 50% of its products to a market outside the East African Union (Europe, Asia, other (non east) African countries, US, South America).*

*Domestic enterprise: an enterprise that produces its products for the domestic market (within Kenya) and of which more than 50% of the product is distributed and sold locally/nationally (in Kenya).*

### ***Stakeholders***

Stakeholders form an important part of responsible business and of this research. The definition of stakeholders in this research is derived from the definition of Freeman (1984). Stakeholders are defined as:

*'A group or individual that can affect or is affected by the activities of a company' (Freeman, 1984).*

Examples are employees, local communities, the environment (a silent stakeholder), suppliers, customers, clients, investors/shareholders, local or national government, NGOs, global institutes (UN), civil society, or a company's network and partnerships.

## **4.4 METHODOLOGY**

This section presents the outline of the research methodology as well as a clarification of the research population, research area and the methods used to collect the necessary data in Kenya. Furthermore an explanation is given on how the obtained data was analysed.

### **4.4.1 Research strategy**

The data collection of the research consists of three parts. The first part of the research mainly involves desk research done primarily while still in the Netherlands and partly while staying in Kenya (from December 2011 till March 2012). The desk research findings are given by means of a literature review in chapter two the theoretical framework, as well as a geographical overview presented in the previous chapter. The desk research consisted of gathering and analysing secondary data to review the body of international literature and theory on responsible business. In addition, the desk research was needed for getting a deeper understanding of processes related to responsible business in general and on responsible business specifically in Kenya. Furthermore, during the first phase a start was made in making an inventory or database of (most) Dutch entrepreneurs that have an enterprise in agribusiness in Kenya.

The second phase involved the expansion of the inventory of Dutch businesses active in agribusiness in Kenya and the collection of primary data on the business characteristics of these Dutch enterprises and on how responsible business is practiced (employed between February and May 2012). This information was collected by making appointments with Dutch enterprises in agribusiness and filling in the research survey (see appendix 2) by means of an interview. The survey is divided into three main parts: questions on the characteristics of the entrepreneur, on the characteristics of the enterprise and on the responsible business practices of the enterprise. The questions for the first two parts were rather straightforward. For the third part the decision was made not to mention the term responsible business or CSR too much as many enterprises generally do not use this terminology. To find out how responsible business is practiced by Dutch enterprises in Kenya a combination of the research strategy of Papasolomou et al. (2005) and of Spiller (2000) was used. Both focus on finding which practices a company employs towards its primary stakeholders. They measure this by dividing the main stakeholders into groups and defining actions or values to each of these stakeholder groups (see figure 6, chapter 2). For this research these actions were used in a likert scale question in which entrepreneurs could indicate to what extent (from 1 to 5) the enterprise was implementing the different actions, with 1 being not at all and 5 being to a large extent. The results of this question could then indicate what the total responsibility level of these enterprises is and on which focus areas or stakeholder groups enterprises focus most and on which they focus least. This strategy furthermore allows a comparative benchmark assessment of the enterprise's responsibility performance in relation to other firms and different agribusiness subsectors. In this stage of the research the aim was to answer sub-questions 1, 2, and 3, and partly 4 and 5 (table 4).

Table 4: Measurement indicators of sub-questions and location within survey/interview

SUB-QUESTIONS	MEASUREMENT INDICATORS	SURVEY/INTERVIEW
1	<ul style="list-style-type: none"> <li>• <i>Characteristics of entrepreneurs</i>: age, education, length of stay in Kenya, weeks a year in Europe/the Netherlands, experience (living/working) in other developing countries.</li> <li>• <i>Characteristics of enterprises</i>: size (amount of employees, amount of land, turnover), market focus, sector within agribusiness, amount of countries in which operational</li> </ul>	<ul style="list-style-type: none"> <li>• Survey: question 3 (part I and II)</li> <li>• Survey: questions 1, 2, 4, 5, 6, 7</li> </ul>
2	<ul style="list-style-type: none"> <li>• <i>Practices of responsible business</i>: open question on responsible business activities per stakeholder group (6 stakeholder groups), likert scale question with 10 responsibility statements per stakeholder group, compliance to international and national certification labels/standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey: questions 8, 9 + Interview: in-depth questions</li> </ul>
3	<ul style="list-style-type: none"> <li>• <i>Drivers</i>: who and what drives RB for your enterprise? What are the bottlenecks and opportunities for RB in Kenya? Which stakeholders prevent and encourage RB and to what degree?</li> </ul>	<ul style="list-style-type: none"> <li>• Survey: questions 9, 10 + Interview: extra questions</li> </ul>
4	<ul style="list-style-type: none"> <li>• <i>Stakeholders</i>: Which stakeholders prevent and encourage RB and to what degree? Comparison likert scale question with stakeholder influence question.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey: questions 8, 10 + Interview: in-depth questions</li> </ul>
5	<ul style="list-style-type: none"> <li>• <i>Value chain</i>: suppliers, customers/clients, international standardization/certification labels.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey: questions 4, 9 + Interview: in-depth questions</li> </ul>

The third phase of the research involved a further collection of primary data by conducting in-depth interviews with the enterprises that already filled in the survey and the selection of several enterprises case studies with a specific focus on stakeholders and the value chain. This stage of the research was aimed at getting a deeper insight and understanding of the reasons and effects of responsible behaviour. In addition, to get clearer and more holistic picture of how responsible business is actually practiced, interviews were conducted with several stakeholders (government institutions, employees, NGO's, certification label organizations) that are linked to agribusiness. From these stakeholder interviews the degree of stakeholder engagement is defined.

The research used a mix of quantitative and qualitative research methods to create both a holistic and in-depth understanding of the responsible business practices of Dutch enterprises in Kenyan agribusiness, in which a comparison was possible between the companies and between the different subsectors within agribusiness.

Table 5: Results used methods and techniques

	METHODOLOGY	RESPONDENTS
Quantitative	Surveys Dutch enterprises operational in agribusiness	37
Qualitative	Interviews/extra questions Dutch enterprises operational in agribusiness	37
	Case studies Dutch enterprises in agribusiness	2
	Interviews stakeholders (NGOs, government institutions, companies, certification labels)	9

#### 4.4.2 Selection research area, sampling frame and sampling method

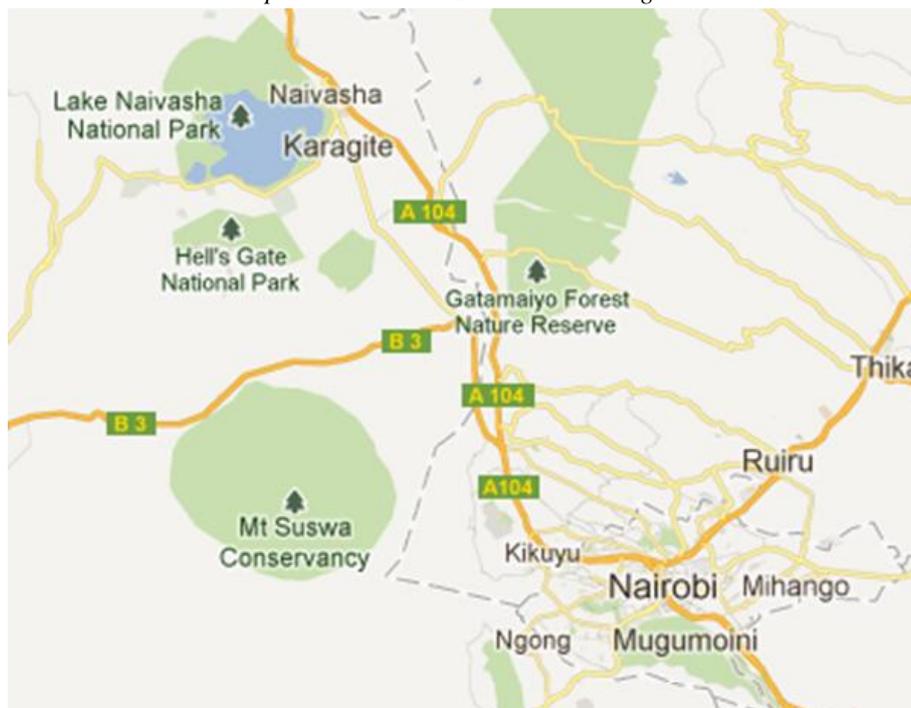
For this research focus was placed on one country as study area due to the limited availability of time and to be able to pay attention to country specific characteristics of responsible business. Kenya was chosen for several reasons. The first is because Kenya is an English speaking African country. Second, Kenya has several advantages which set the country apart from its neighbours, as the country has a central location both in East-Africa and in the world, it has a large international airport and harbour which makes the country internationally very accessible and Kenya has a prominent floriculture sector in which many Dutch enterprises are active.

Important for the research was to determine where the Dutch enterprises active in agribusiness in Kenya were located. After having gone through previous research done on Dutch enterprises in

Kenya and after consolidating with the Embassy of the Netherlands and with several owners of Dutch enterprises in Kenya, the decision was made to focus on the Nairobi (including Limuru) and Lake Naivasha regions in Kenya (Map 2). Most Dutch enterprises are located or have a strong business link with the city Nairobi, mainly because the city has a good infrastructural network and the international airport is located just outside the city. The lake Naivasha region is known for the many flower farms located in the area. It is estimated that around 60% of Kenya's flower farms are concentrated around Lake Naivasha because the area has many locational benefits for flower farms, for instance the altitude, the persistent temperatures and the lake water.

In the end there were some exceptions of Dutch companies located in the areas of Kisumu (western Kenya), Nakuru (to the north of Naivasha) and Mombasa (Eastern Kenya) that were interviewed and used for this research.

*Map 2: Nairobi and Lake Naivasha regions*



#### **4.4.3 Data collection: Research population and sampling method**

As a complete list of all the Dutch enterprises active in Kenya does not exist or is not publicly accessible, due to privacy reasons, different techniques were used to find out which Dutch enterprises are active in agribusiness in Kenya. First, an email about this research was sent through the Embassy of the Netherlands in Nairobi to all the Dutch enterprises in their database. This way the entrepreneurs, willing to participate in the research, could respond themselves. A weak point of this approach is that the total population of Dutch entrepreneurs in agribusiness in Kenya is unknown; making it unclear to what extent the population of enterprises that were willing to participate in the research and were interviewed is representative of the total population of Dutch companies in Kenya.

Once contacts with Dutch enterprises were made a snowball sampling technique was used to ensure that the sample is as complete as possible and find out which other Dutch enterprises are active in agribusiness in Kenya. This stage of the research relied on informal social networks in the Kenyan business community to reach other companies not reached through the sent email. The initial respondent referred to other possible respondents, who identified others, and so on. In addition, not only the knowledge and social networks of entrepreneurs were used in this snowball sampling technique, but also that of agribusiness experts active in Kenya. The combination of these techniques provided a sufficient picture of the entire population of Dutch enterprises in Kenya.

In addition, a study done by Groense Capital Holding in 2011 on Dutch enterprises in different sectors in Kenya provided a clearer picture of the total amount of Dutch enterprises active in Kenya (table 6). Although this data is from 2011 and enterprises that have just started their operations are not included, and those that just ended their operations are included, it does give and insight into the total amount of Dutch enterprises operational in Kenya. The data shows that there are 169 Dutch entrepreneurs active in Kenya in 2011. This includes Dutch owned companies with Dutch management, companies in majority owned by Dutch with Dutch management, companies with Dutch majority shares and non-Dutch management, and companies in the recent past owned by Dutch but taken over but still have Dutch management. The numbers do not include enterprises that are active in Kenya but do not have a representative office in the country.

*Table 6: Amount of Dutch entrepreneurs in Kenya per sector, 2011*

SECTOR	AMOUNT
Horticulture –Flowers/plants	38
Horticulture - Vegetables/potatoes/fruits/Tea	17
Dairy	6
Tea	2
Beverage	1
Consultancy (food & agribusiness)	10
<b>Overall Total Food &amp; Agribusiness</b>	<b>76</b>
ICT / Printing/Offset	15
Transport	14
Financial Services (private equity, lease, banking, consultancy)	11
Energy	7
Engineering/ Infrastructure	4
Tourism	10
Real estate / project development	5
Manufacturing	2
Mobile communication	2
Consultancy in general	12
Medical (like Philips Healthcare)	3
Others (divers)	9
<b>Total</b>	<b>169</b>

*Source: Groense Capital Holding, 2011*

#### 4.4.4 Data analysis

In total 37 useful surveys and interviews were conducted with owners and managers of Dutch enterprises active in agribusiness in Kenya.

Using the data from the study done by Groense capital holding in 2011, and the own inventory made using the techniques described above; an estimation could be made of the percentage of the research population in relation to the total population. Table 7 shows the percentages for the different sub-sectors within agribusiness. This way the representativeness of the research population could be determined. For some sectors, like beverage, consultancy, ICT/software and energy generalization of conclusions is difficult, as the total population is so small that the number of respondents is sufficient to draw conclusions to some extent but will not apply to the entire country. For this reason these sub-sectors are taken together and named ‘agribusiness other’. The number of respondents for the horticulture-flower/plants, horticulture-vegetables/fruits, and dairy and livestock, form a large part of the entire population hence could be regarded as sufficient enough to draw conclusions that could apply to the entire population. However, as a snowball method used for data collection and the rather small amount of companies interviewed in the different sub-sectors, the representativeness of the research population is questioned. Hence, conclusions drawn in this research apply only to the research population, not to the entire population.

Table 7: research population in comparison to the total population

AGRIBUSINESS	TOTAL AMOUNT	AMOUNT INTERVIEWED	PERCENTAGE OF TOTAL AMOUNT
Horticulture – flowers/plants	38	18	47%
Horticulture – vegetables/fruits	17	5	29%
Dairy/livestock	6	4	67%
Beverage	1	1	100%
Consultancy (agribusiness)	10	2	20%
ICT/Software	15	2	13%
Energy	7	2	29%
Others (packaging, cooling etc)	9	4	44%
<b>Total Agribusiness</b>	<b>103</b>	<b>37</b>	<b>36%</b>

Furthermore, the interviewed Dutch enterprises were categorized according to their size, their market focus and to whether they are certified internationally or domestically. The size of an enterprise was determined according to the number of employees and the annual turnover. SMEs were regarded to have less than 50 employees and an annual turnover of less than KSH 50 million. Large companies were those with more than 50 employees and with an annual turnover of more than KSH 50 million. Thus, in the end 17 SMEs and 20 large companies were interviewed.

The market focus was determined by asking the respondents for the share of focus per market, international, European, African, national and local. There were 16 enterprises that were for more than 50% focused on the international market (European market included) and 21 enterprises that were for more than 50% focused on the local and national market. None of the enterprises were for more than 50% focused on the African market. The companies with an international market focus will be referred to as export companies and those with a local and national market focus will be referred to as domestic companies.

The enterprises were in addition asked whether they are certified by any national or international certification label or standard. Of the 37 interviewed companies, 23 were certified and 14 were not. The 23 certified companies were then divided into only certified by an international certification label, only certified by a domestic certification label or certified by both an international and a domestic certification label. Table 8 illustrates the results in absolute amounts and in percentages.

Table 8: Certified and non-certified interviewed Dutch companies, n=37

	AMOUNT OF COMPANIES	
	Abs	%
<b>CERTIFIED</b>	23	62,2%
INTERNATIONAL	5	21,7%
DOMESTIC	11	47,8%
BOTH	7	30,5%
<b>NON CERTIFIED</b>	14	37,8%

To determine how consistent a certain scale or question of the survey is in measuring what it intends to measure a reliability test was performed. This was done for the statements on responsible business practices of the six stakeholder groups of the likert scale question (appendix 6 and 7). The test shows the reliability of the individual statements and of all the statements together and shows whether statements should be left out of analysis to increase the reliability.

As the research population was rather small and the data did not appear to be normally distributed and often categorical rather than ordinal or scale, it did not lend itself for parametric statistical testing. For these reasons, non-parametric statistical tests were performed. Spearman's rho correlation tests were performed to determine whether there are any patterns across subsectors, company size, market focus and certification of companies and their responsible business activities. Mann-Whitney tests were conducted to determine whether the distribution of different population

groups could be considered the same or different across subsectors, company size, market focus and the certification of companies (appendix 8).

#### **4.5 MAIN RESEARCH LIMITATIONS**

During the process of obtaining data and conducting the research some limitations were present and worth mentioning. The research findings should be interpreted with some caution for several reasons.

First, no complete list of all the Dutch enterprises in Kenya was available. Although the different sampling techniques and the results of the Groense capital research (2011) provide some insights into the actual population it cannot be concluded for certain that the research population is a good representation of the total population in Kenya.

Second, the amount of respondents for some sub-sectors (horticulture and dairy and livestock) is rather low. Although, these sub-sectors actually count a small number of Dutch enterprises, caution is still needed when analysing the results of these sectors separately. This also causes problems for the representativeness of the research population.

Third, because the owners and managers of enterprises were interviewed the results of the research are prone to a high self-assessment level and could thus give a more positive view on responsible business practices than actually is the case. This bias in the results was attempted to be eliminated by interviewing different stakeholders, targeted by the enterprises in their responsible business practices. Although interviews were held with several stakeholders it was rather difficult to uncover what is actually happening regarding responsible business practices.

Fourth, this research only takes a focus on Dutch enterprises in agribusiness in Kenya. Therefore, comparison between the responsible business practices of Dutch enterprises and those of other company nationalities is not possible. The extent to which responsible business practiced by Dutch enterprises is more advanced or not than other types of companies is thus not clear.

## 5 PROFILE DUTCH ENTREPRENEURS AND ENTERPRISES IN AGRIBUSINESS

To determine which Dutch enterprises are active in agribusiness Kenya, the general characteristics of Dutch entrepreneurs and their enterprises were examined. Guided by the first of the five research sub questions, *what are the characteristics of Dutch entrepreneurs and their enterprises in Kenya?* this chapter will report on the findings. The results are divided into two parts; characteristics of Dutch entrepreneurs and characteristics of Dutch enterprises operational in agribusiness. The characteristics of Dutch enterprises are further divided into the subsectors floriculture, horticulture, dairy and livestock and agribusiness services.

### 5.1 CHARACTERISTICS OF DUTCH ENTREPRENEURS

A number of 37 Dutch entrepreneurs, both owners and managers of enterprises in Kenya, were interviewed. These Dutch entrepreneurs were, apart from 1, all male (table 9). The great majority (73%) of these entrepreneurs were between 36 to 55 years old. Interestingly, a great deal (46%) of the entrepreneurs had been living in Kenya for less than 5 years. The amount of years in Kenya for the other entrepreneurs varied between 5 and 30 years (table 9). About 16% of the interviewed entrepreneurs does not live in Kenya at all and travels to and from Kenya several times a month. The other 84% of the entrepreneurs that do live in Kenya, on average spends about one or two weeks a year in the Netherlands. About 35% of the interviewed entrepreneurs had previous living experience, either work related or education related, in other developing countries in the world. Most of these entrepreneurs generally had previous living and working experience in other African countries and some in Asian countries. The educational levels of the entrepreneurs varied widely, several entrepreneurs had merely finished secondary school while others had university degrees. Although a university degree is generally a requirement for setting up a business in the country in Kenya, this is generally not an issue for entrepreneurs without this degree. The immense corruption in the Kenyan government makes it possible to easily obtain this university degree by paying government officials a bribe (see box 6.1.1).

Table 9: characteristics of entrepreneurs in Kenya (n= 37)

	Entrepreneurs N=37	
	Abs	%
<b>Gender</b>		
Male	36	97%
Female	1	3%
<b>Age</b>		
<25	1	3%
25-35	4	11%
36-45	17	46%
46-55	10	27%
55>	5	13%
<b>Function</b>		
Manager	15	41%
Owner	22	59%
<b>Years in Kenya</b>		
<5	17	46%
5-10	6	16%
11-15	2	6%
16-20	5	13%
21-25	4	11%
25>	3	8%
<b>Lived in other developing countries</b>		
Yes	13	35%
No	24	65%

Most interviewed entrepreneurs had several different businesses running simultaneously or had plans for setting up another business or project in the near future. Some entrepreneurs even had as much as three or four businesses running at that moment, often in the same sector but sometimes in totally

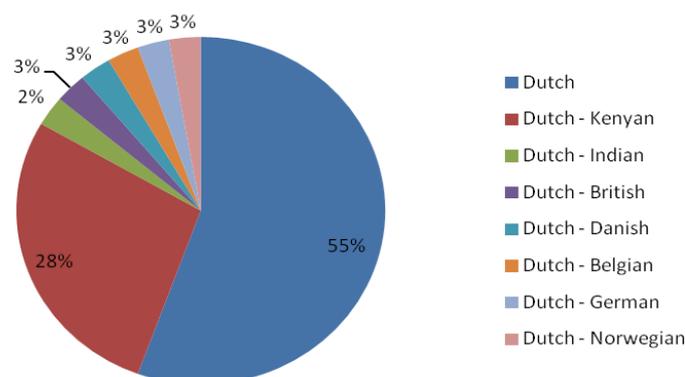
different sectors and business activities. For instance, one entrepreneur interviewed for its business activities in the dairy and livestock sector also had a travel and tourism agency and was planning on starting a business on importing pianos from Europe and selling them in Kenya.

In general, the owners and managers of the interviewed enterprises have vast working experience and knowledge of the specific sector in which they are active. This is particularly relevant for the Dutch entrepreneurs operational in the flower sector in Kenya. These entrepreneurs have gained working experience due to previously having owned a flower company, generally in the Netherlands, due to having grown up in the flower industry, their father owning a flower business, or having worked in the industry for a several years. On the other hand, some of the entrepreneurs by coincidence rolled into their business operations. For example, the owner of a dairy processing enterprise who had imported machinery for processing milk into yoghurt and cheeses for a client, but because the deal fell through the entrepreneur was left with expensive machinery and was more or less forced into the milk processing business himself.

## 5.2 CHARACTERISTICS OF DUTCH ENTERPRISES IN AGRIBUSINESS

Dutch enterprises are well represented in agribusiness in Kenya; about 103 Dutch enterprises are estimated to be currently active in Kenyan agribusiness. However, not all these Dutch enterprises are fully owned by entrepreneurs with a Dutch nationality. Of the 37 Dutch enterprises interviewed for this research, just more than half are fully Dutch owned (figure 7). About 38% of these enterprises also have an establishment in the Netherlands. A rather small amount of 28% of the Dutch enterprises has shared ownership with a Kenyan partner. This however, generally is just a formality, as only one of the Kenyan co-owners of the interviewed enterprises has 50% ownership of the enterprise. All other Kenyan co-owners have a varying ownership of 1% to 5%. Other co-owners are mainly from European countries (United Kingdom, Denmark, Belgium, and Germany) with one exception of an enterprise with an Indian co-owner.

Figure 7: Ownership of interviewed enterprises, n=37



The Dutch enterprises operational in the different agribusiness subsectors show large characteristic differences, therefore the four subsectors, floriculture, horticulture, dairy and livestock and agribusiness services are examined separately. First, the enterprise characteristics of the flower sector will be discussed followed by the enterprise characteristics of the horticulture sector, the dairy and livestock sector and finally the enterprise characteristics of the agribusiness services sector.

### 5.2.1 Floriculture

The flower sector in Kenya is a large contributor to the economic development of the country, as it is one of the leading exports in the country. Every year more than 88 million tons of cut flowers are exported, worth about 264 million US dollars. It is estimated that around 60% of the Kenyan flower industry is concentrated in the Naivasha region. Dutch enterprises are well represented in the

floriculture sector in Kenya, particularly in the Naivasha region. For this research 18 Dutch flower companies were interviewed, of which 12 were located in the Naivasha region and 6 were located in the Nairobi region. Four of the 18 interviewed flower companies are SME's and 14 are large companies. On average the annual turnover of the interviewed companies is between 1 million and 5 million US dollars. About 56% of the interviewed flower companies are the local branch of a Dutch parent company and in several cases this Dutch parent company has more local branches in the world. The other 44% of the interviewed flower companies are sole standing limited companies. Many Dutch enterprises in the flower sector relocated for the Netherlands to Kenya or opened a branch in Kenya mainly because labour cost are low and climate conditions are ideal for a year-round production of flower and plants. In addition, several companies argued that the reason for leaving the Netherlands was the bureaucracy and the many rules to which companies have to comply in the Netherlands.

The total area of flower production in Kenya is estimated to be around 2,500 hectares. On average the interviewed Dutch enterprises in floriculture own 39 hectares of land, ranging from 2 hectares to 155 hectares. Generally no more than 50% of this land is cultivated and used for greenhouses. This land is for 56% bought from private parties, often land lords that have inherited the land, bought it from other land lords, bought it from communities or obtained it through some sort of corruptive practice. The other 44% of the land is leased from mainly the government, generally for the long period of 99 years, but also from other flower companies that sub-lease land. Water sources used by the enterprises are mainly surface water (42%), like lakes (Lake Naivasha) and rivers, and boreholes (ground water) (32%). A rather small amount of the companies (10%) uses rain harvesting systems. Most companies use several different water sources simultaneously and it is generally dependent on the rainy seasons when which source of water is used. In the rainy seasons rain water generally provides sufficient water, while in the dry seasons companies are dependent on other types of water sources like boreholes and not (yet) dried up lakes and rivers.

The arrival of the flower industry to the Naivasha region has had a large impact on the environmental situation in the region. European clients, particularly large retailers from the United Kingdom, government bodies and pressure groups have forced the industry to take serious actions to protect the environment and the people living in the region. The interviewed companies in the Naivasha region argued they were prone to quite a lot of criticism and negative media on their business activities. This criticism is mainly concentrated on the environmental impact of these companies on the lake and its surroundings, like pollution of the lake and the animals in the lake, degradation and pollution of the soil around the lake, and decreasing lake water levels. The negative media has not only resulted in decreased product sales of companies located around the lake and indeed using lake water, but also for companies located nowhere near the lake and not using the lake's water.

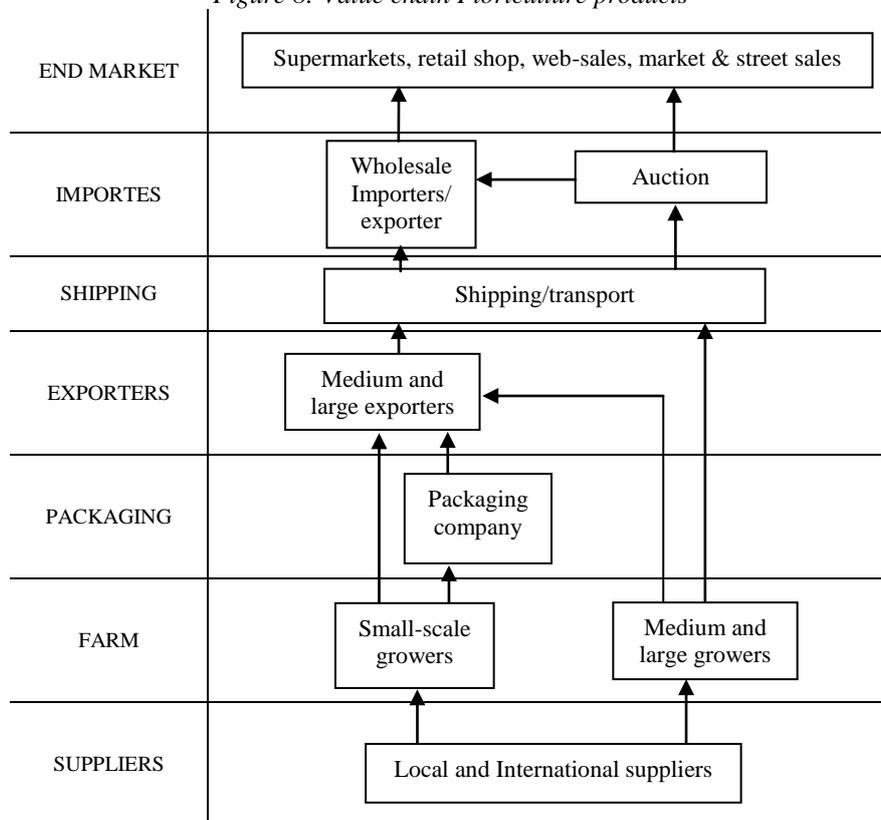
The number of employees working for the Dutch flower enterprises on average is 779, ranging from 7 up to 4000 employees. Flower companies with a small amount of employees are generally flower breeding companies and have a small production and testing area, hence do not rely on a large amount of employees for their business activities. The large flower companies on average have 40 employees per hectare. The employees working at the flower companies are for 70% female and only for 30% male. Harvesting cut-flowers is highly labour-intensive because it has to be done by hand and up to three times a day to ensure high quality. Women tend to work more precise making them better suited for this type of work. Other reasons given for the emphasis on woman in floriculture is the liability; women tend to focus more on the future, and generally work harder than men and do not complain. The majority of the employees working at the flower companies are permanently employed as most flowers are produced year round in Kenya. Just a few of the interviewed companies have high and low seasons in the production of their product, mainly cuttings, and thus acquire temporary employment next to their permanent employees. Overall, the employees hired are local Kenyans, especially in the lower work segments. In the top segments of the company, for instance farm

managers or general managers, the employees are often internationally sourced. This is because Kenyans generally lack the educational and work experience needed to manage a flower company and, particularly the Dutch, generally possess this experience. However, in recent years more and more universities and colleges in Nairobi have been providing courses specifically on the flower sector. Hence, in several years the management positions in Dutch flower enterprises in Kenya could possibly be filled by Kenyans.

Roses represent almost 80% of the total flower production in Kenya. In addition to roses, Kenyan floriculture produces amaryllis, carnations, lilies, gypsophila and a small range of other summer flowers. About 60% of the interviewed Dutch flower enterprises produce roses. The other 39% produce either cuttings or other flower varieties like amaryllis and calla lilies.

The flower value chain is generally very fragmented and diversified. However, for the interviewed Dutch flower companies in Kenya the value chain is rather straightforward (figure 8). The suppliers of the enterprises in floriculture are for a large part located in Europe. The Dutch private sector is involved as supplier of inputs and services, as a (co-) investor, primary producer, breeder, exporter and buying partner and importer of Kenyan floriculture products (Wolff, 2011). Many Dutch enterprises in Kenya import products for cooling, irrigation, fertilization, seeds, cuttings etc. from other Dutch enterprises. This is why several Dutch suppliers of such products have opened a department in Kenya to be able to be closer to their clients and their market, and thus respond better and quicker to the wishes of the market. There are however, several big companies in Kenya (Amiran, Elgon) that have a rather powerful position in the Kenyan market when it comes to supplying products for particularly the floriculture and horticulture sectors. These companies are not originally Kenyan but are owned either by Indians or Israeli and have been active on the Kenyan market for several years. Supplies for floriculture are for about 50% from other Dutch enterprises either in Kenya or abroad and for 50% from the companies Amiran and Elgon.

Figure 8: Value chain Floriculture products



Source: Wolff, 2011

A large amount of the interviewed flower companies have a large part of the value chain as their business operations, like packaging, transport, cooling, exporting. About 90% of the flower companies do the packaging of the flowers themselves. In addition transport, generally in refrigeration trucks, from the farm location to the Jomo Kenyatta International Airport located in Nairobi is done by the companies themselves. This is done to save costs, make sure the product is delivered on time, as flowers are generally delivered just hours before plain departure, and to secure the quality of the products. As products need to be transported immediately after harvesting; transports need to be fast and reliable. In addition, during the whole process of packaging and transportation it is of great importance that the temperature of the flowers is brought back to around 2 to 5 degrees Celsius. Maintaining a constant temperature significantly extends the vase or shelf life of the flowers and increases the price received for these flowers. As it is so important to keep flowers at the right temperatures most enterprises also have their own cooling facilities and storage rooms. At International Airport in Nairobi there are 4 leading companies providing the logistical services of transport to either the flower auctions or as direct sales. For a large part of the interviewed Dutch flower companies this is generally the phase in the value chain where other companies take over.

Table 10 illustrates the different value chain phases the interviewed flower companies are currently operational in. As flower enterprises are primarily operational in the top end of the value chain, activities down the value chain are left out of the analysis. The table illustrates a distinct difference between the companies that are focussed on the breeding and the testing (R&D) part of the value chain and the companies that are focussed on the production and farming part of the value chain. Those operational in farming generally also carry out storage and cooling activities, packaging activities and in some cases also transport and processing activities. One of the companies, a rather large company, currently carries out nine value chain activities, from breeding to transport and trading of the product.

Not only are the companies in the flower sector increasingly carrying out more activities in the value chain of their product, they are also carrying out activities in other sectors and products. As a means of crop-rotation an increasing number of flower companies are producing other flower varieties or even other agricultural products, like potatoes and tomato seeds. This way these companies can still ensure an income from the products grown on the land that is not suitable for flower production at that moment.

Table 10: value chain phases in which Dutch enterprises in floriculture are operational

VALUE CHAIN PHASES	COMPANIES																		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
Machinery/engineering																			
Fertilizers/pesticides																			
Seeds		x						x										x	x
Breeding	x		x	x					x										
Services/consultancy																		x	
R&D		x	x	x														x	x
Farming		x			x	x	x	x	x	x	x	x	x	x	x	x	x	x	
Storage/Cooling					x	x	x	x		x	x	x	x					x	
Processing/manufacturing												x	x		x			x	
Packaging					x	x	x	x	x	x	x	x	x		x	x	x		
Retail																			
Transport					x		x		x									x	
Trading/Exporting																		x	
Marketing																			

Customers and clients of the Dutch flower companies in Kenya are mainly internationally located. About 89% of the Dutch flower companies have clients located in Europe and therefore have an average focus of 90% on the European market for product sales. A percentage of 39% of the companies focuses on the international market, of which the US, Japan and the Middle East are the main destinations. The market share for this international market is rather low and accounts for about

15% of product sales. Only a small amount of the flower companies focuses on the African market, the Kenyan market and the local markets within Kenya. The average share for these markets combined is no more than 5% of product sales. As these results already suggest, the Dutch flower companies in Kenya still predominantly export to the auctions in Europe, particularly the auction in Aalsmeer the Netherlands. This is mainly because export to international auctions secures payments and suits the enterprise's business model of growing large quantities of a limited number of flower varieties. However, an increasing number of flower companies are by-passing the international auctions and are selling their products directly to wholesales and importers in Europe, the Middle East and the United States through their own sales and marketing department. This strategy is currently mainly implemented by large companies that are able to bear the costs when direct product sales fall through. These companies are, however, increasingly facing difficulties in controlling the distribution process, in collecting the money and in dealing with the quality and delivery claims of the international clients.

Transport to the auction or other clients, is primarily done through air flight and generally from the Jomo Kenyatta International Airport in Nairobi. Although shipping flowers by boat is a success in other flower producing companies, like Ecuador and Colombia, in Kenya the transportation of flowers by boat is currently impossible. This is particularly due to the logistical problems in the Mombasa harbour, the piracy in the waters near Somalia and the large amount of time it takes to navigate around the south point of Africa to circumvent the Somalian waters, all resulting in a cost increase.

### **5.2.2 Horticulture – vegetables and fruits**

In the horticulture sector and more specifically in the vegetable and fruit sector a much smaller amount of Dutch enterprises, than in the flower sector, is operational, therefore a small amount of five Dutch companies were interviewed. These companies were not located in a specific region and locations varied from eastern, central and western Kenya. Also the size, activities and the products produced by the interviewed companies are widespread. One of the interviewed companies, a rather large company, is operational in the production of green beans, peas and sugar snaps. Other interviewed companies that are SMEs, have business operations ranging from the production of pineapples and moringo, processing potatoes into chips and the production and drying of paprika and bird eye peppers. The annual turnover of these companies is on average 100.000 to 500.000 US dollars. On average these companies own 53 hectares of land, ranging from 2 hectares to 202 hectares. This land is for 67% bought from land lords and from other private parties, and for 33% leased from private parties, generally farmers and the Kenyan government. One of the horticulture companies specifically leased land from local farmers, instead of buying the land, in order to provide an income for these farmers. However, this company's experience with leasing land from local farmers was rather negative, because the local farmers often did not respect the contracts made and for instance started building a house on the leased land or started cultivating the leased land.

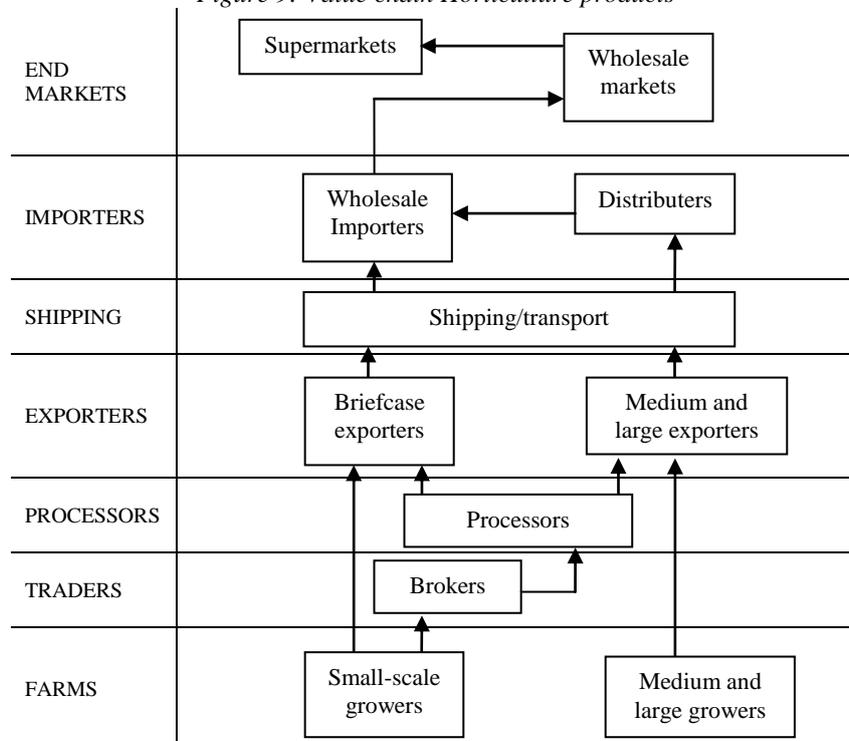
The horticulture companies on average have 236 employees working for them, ranging from 5 to 1000 employees. The majority of these employees are, similar to the flower sector, female (60%) and the minority male (40%). As this sector also requires very precise and secure work, female workers tend to be more appropriate. Water sources used by the enterprises are mainly boreholes (ground water) and surface water, like ponds and rivers. Most companies use several different water sources simultaneously and it is generally dependent on the rainy seasons when which source of water is used. In the rainy seasons rain water generally provides sufficient water, while in the dry seasons companies are dependent on other types of water sources like boreholes and not (yet) dried up lakes and rivers.

The value chain of the horticulture sector is somewhat different than that of the floriculture sector. This is because Kenya exports only a small proportion, about 10%, of the total horticulture

production (figure 9). Domestic trade takes up a predominant part in the horticulture value chain. The major actors involved in horticulture are producers, traders (brokers), middlemen, transporters and local authorities. Brokers generally are the link between farmers and the market; they bring the farmer's products to processors or retailers. Fruits and vegetables in Kenya are primarily produced by smallholder farmers and medium sized farms. Approximately 7,000 smallholders in Kenya are involved in the export of vegetables, while 40,000 to 60,000 people are employed on the farms and the processing industry in Kenya. Three of the interviewed Dutch companies had smallholder farmers as suppliers, with amounts ranging from 50 to 5000 farmers. In contrast to the flower sector, the suppliers in the horticulture sector are for 80% local farmers or companies and for 20% international companies. Most farmers, particularly the small and medium sized farm, rely on the seasonal rains and plan their crop production accordingly. Recent weather and climate change, in particular the long dry periods, make product planning difficult. As a result, many farmers are not producing the quantities they generally produce or are losing entire harvests. One of the interviewed companies, had a large problem with the supply of potatoes, needed to process into chips. Not only did prices go up in the dry periods but also the quantities and the quality of the potatoes decreased. For this reason the enterprise was in search of other possibilities for the supply of potatoes, and came in contact with a flower company producing potatoes for the domestic market as a means of crop-rotation. As the previous example indicates, due to the insufficient and unreliable supply of needed products, more and more companies in Kenya are taking more phases of the value chain into their own hands.

The margins between farm prices and the end consumer in Kenya are widespread. The local Kenyan market lacks transparency, which often reduces producer and farmer margins and skews trade benefits towards traders and blocks the entry of new market players. In addition, brokers know that in dry seasons, production is generally lower and therefore have a strong market position and can ask higher prices. In the rainy seasons, when production is generally higher, brokers can ask lower prices from farmers, hence establishing wide margins in the market during the different seasons.

Figure 9: Value chain Horticulture products



Source: Wolff, 2011

Although only 10% of the vegetables and fruits produced in Kenya are exported, two of the interviewed Dutch enterprises are exporters of vegetables. The main vegetables for export include

beans (fine and extra fine), runner peas and mixed vegetables. The two Dutch vegetable exporting companies export mainly to Europe and in particular the United Kingdom, The Netherlands, France and Germany. These large horticultural export companies are highly integrated companies. The major part of their food crops are grown on their own farms, where they can control storage, cooling, packaging and logistics from the field to the international airport. One of the interviewed export companies even did the marketing of the product themselves. The present market conditions in the European Union supermarket sector, the most important market for vegetables from Kenya, have induced a shift to more integrated value chains represented by larger integrated exporters. Smallholder producers have been pushed out of the cultivation of vegetables because it has become increasingly difficult for vegetable exporting companies to work with many smallholders and at the same time comply with traceability and quality requirements from the European market. The export business model has changed towards a system with a limited amount of medium land holders (between 5 ha and 15 ha), who are able to deal with the strict food safety and traceability requirements. At the moment, there is only one large Dutch vegetable exporter in Kenya that works with traditional small-scale farmers with land possession up to 2 ha. Chapter seven will further elaborate on this.

Table 11 illustrates the different value chain phases in which the interviewed Dutch companies in horticulture are currently operational. As the interviewed enterprises are primarily operational in the top end of the value chain, activities down the value chain are left out of the analysis. The table illustrates that the Dutch companies operational in horticulture generally carry out farming activities, processing and manufacturing, packaging and transport. One of the companies, not even a very large company, carries out nine value chain activities, from seed production to transport and trading of the product.

*Table 11: value chain phases in which Dutch enterprises are operational*

VALUE CHAIN PHASES	COMPANIES				
	1	2	3	4	5
Machinery/engineering					
Fertilizers/pesticides					
Seeds				x	
Breeding					
Services/consultancy				x	
R&D				x	
Farming	x	x	x	x	
Storage/Cooling	x			x	
Processing/manufacturing	x	x	x	x	x
Packaging	x	x		x	x
Retail					
Transport	x	x		x	x
Trading/Exporting	x			x	
Marketing	x				

Although 96% of all horticulture produce is consumed locally, there has been little effort towards ensuring that the products for the domestic market comply with similar regulations as products for the international markets. It is often the case that unrecorded proportions of horticultural products that did not meet the quality standards of the European Union finds its way on to national and regional markets. The Fresh Produce Exporters Association of Kenya (FPEAK) is attempting to change this by the introduction of the KenyaGAP standard (see appendix 5). This standard has the same focus areas as GlobalGAP on food safety, product quality and transparency throughout the value chain. However, as long as the consumer markets do not demand better standards no changes will take place in the horticulture market in Kenya. Then again it is the question whether quality requirements on the domestic market should be the same as on the international market, as the requirements on the international market have already resulted in smallholder farmer exclusion of the export market. The same could happen if similar quality requirements and standards are implemented for the domestic vegetable market. The livelihoods of a lot of small vegetable and fruit producers and sellers (typically

called mamaboca, the street sellers) are dependent on the horticulture sector and could drastically be affected.

### 5.2.3 Dairy and Livestock

The dairy and livestock sector is a very important sector in Kenya. Compared to other East-African countries Kenya holds the largest herd of dairy cattle, 3 million cows, and about 650.000 farmers are involved in milk production. The total amount of milk produced in Kenya is 3.8 billion litres a year (table 12). Kenya is mostly self-sufficient in terms of milk and dairy production, except in periods of extreme drought. In addition, increased demand of dairy products has occurred due to the higher population pressure in Kenya, putting pressure on farmers and their cows. One of the interviewed Dutch companies has responded to this increased demand by introducing a cow variety in Kenya that can produce more milk than the cows generally used for milk production. This new cow variety is cross-bred with the cows of local farmers. During the pregnancy of the farmer's cow, a share of the milk is sold to the company. This is the price farmer pays for the calves their cross-bred cows will receive, and lasts as long as the pregnancy. On average this means the farmers pay two litres of milk a day for a period of nine months. On top of this, farmer trainings are provided by the company to counter the main problem of farmer's lack of knowledge.

In the Kenyan dairy and livestock sector 4 Dutch companies were interviewed. Of these companies, two were active in both livestock and dairy activities with the cross-breeding of Fleckvieh cows in Kenya and selling the milk produced by these cows. Two enterprises were only active in processing milk into different cheeses and yoghurts for the Kenyan market. All four of the interviewed enterprises are solely focussed on the domestic or even local markets for product sales. Three of the enterprises are SMEs, while one of the enterprises is a large company. The annual turnover of these companies on average is between 100.000 and 500.000 US dollars. The two enterprises that are primarily involved in the processing side of milk do not own their own land, just the small patch of land their factory is built on. Only one of the companies owns land of about 202 hectares, which is bought from a private party. On average the companies have 51 employees, ranging from 3 to 100, due to the diverse business activities. About 52% of these employees is male and about 48% of the employees is female. As milk processing business activities generally means working with machines in factories and is a more technical job that often requires more physical strength, more men are active in this subsector than women.

Table 12: Market characteristics dairy and livestock sector in Kenya.

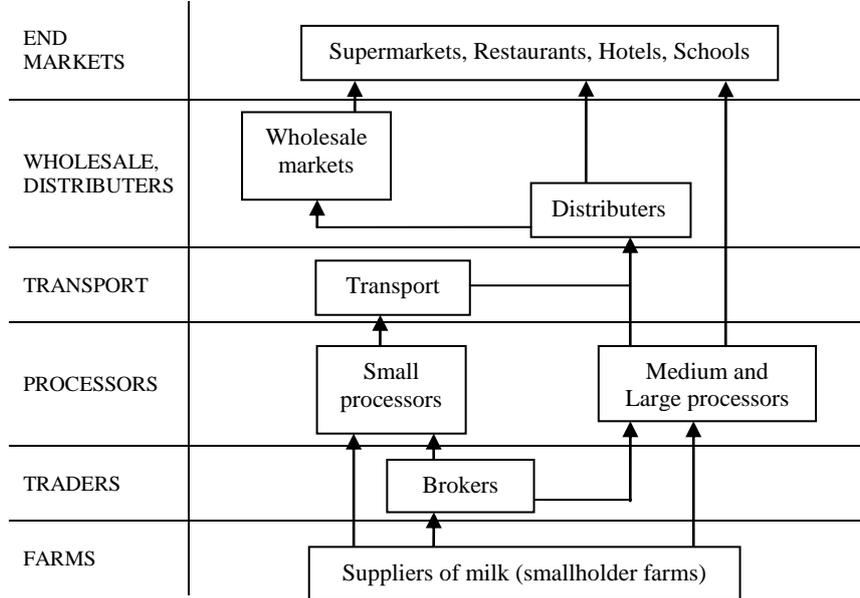
SECTOR ATTRIBUTES	KENYA
Size of dairy herd	3,000,000
Number of farmers	650,000
Productivity per cow (litres/year)	1,500
Total milk produced	3.8 billion
Total milk processed	327 million litres

Source: Giani, 2012

The dairy and livestock value chain in Kenya is rather similar to the domestic value chain of horticultural products (figure 10). About 70% of the dairy farmers in Kenya are smallholders. Dairy farming is an essential part of smallholder farming, as it represents a livelihood income and a safety net (Giani, 2012). Suppliers of the Dutch dairy and livestock companies are generally local farmers with small patches of land. Between the farmers and the market traders or brokers are operational, who in turn sell the products to domestic markets, milk processing companies, supermarkets, shops, and restaurants. As is the case in the horticulture sector, brokers in the dairy and livestock sector have a very powerful market position, and can easily play the market to their advantage. In the dry seasons, less milk is produced by the local farmers, leading to increased market prices. Several interviewed

companies argued that in these periods it is rather difficult to obtain enough milk for production and prices are often very high. In the rainy periods it is the other way round, prices are low and there is generally an overproduction of milk. Both for farmers producing the milk as companies processing the milk this means a very uncertain and unreliable milk supply and price.

Figure 10: Value chain Horticulture products



Source: Wolff, 2011

Dairy products produced in Kenya are not exported to other countries and consumed either locally or nationally. Products are for instance produced for supermarket chains throughout Kenya. One of the interviewed companies produced for large supermarket chains in Kenya and experienced that these supermarkets mark-up the prices of the dairy products, often making them too expensive for consumers. This has created a smaller demand in the supermarkets for dairy products as cheese and yoghurt, and as a result a smaller demand from the supermarkets for these products. Products are also increasingly sold to restaurants and hotels in surrounding regions. There is particular interest from hotels and restaurants for the high quality produced products.

Table 13 illustrates the different value chain activities in which the Dutch dairy and livestock enterprises are operational. The main value chain activities of these companies are processing and manufacturing, the packaging and the transport and trading of the product. Two of the companies are also involved in farming activities. One of the interviewed companies, in addition, carries out the marketing and selling of the product to consumers.

Table 13: value chain phases in which Dutch enterprises are operational

VALUE CHAIN PHASES	COMPANIES			
	1	2	3	4
Machinery/engineering				
Fertilizers/pesticides				
Seeds		x		
Services/consultancy				
R&D				
Farming		x	x	
Storage/Cooling				
Processing/manufacturing	x		x	x
Packaging	x		x	
Retail				
Transport	x		x	
Trading/Exporting			x	x
Marketing				x



## 6 RESPONSIBLE BUSINESS PRACTICES

To determine how responsible business manifests itself in Kenya, the responsible business practices of Dutch enterprises in agribusiness were examined in detail. Guided by the research sub question, *how is responsible business practiced by Dutch enterprises active in agribusiness in Kenya?* this chapter will report on the findings. First a general overview will be given of the activities that can be regarded as responsible business and those that cannot. Second, a comparison will be made between large and small companies, export and domestic companies, the different sub-sectors and between certified and non-certified companies. Finally, a link will be made to the pyramid of responsible business as defined by Carroll (1991).

### 6.1 RESPONSIBLE BUSINESS PRACTICES

Considering the responsible business practices of Dutch enterprises active in agribusiness in Kenya the activities and focus areas are widespread. The interviewed Dutch enterprises were asked in which ways the enterprise is involved in the well-being of six different stakeholder groups, employees, communities, customers, suppliers, environment and investor/shareholders. The results of this question are presentation below, according to the specific stakeholder group.

#### 6.1.1 Employees

The interviewed Dutch companies argued that employees are very important for the survival of the enterprise. Especially for the farming companies, which have very labour intensive business activities, employees are essential for the enterprises business operations.

Activities regarding employee well-being most mentioned by the interviewed companies were payment of sufficient salaries, provision of housing or housing allowance, travel allowance, medical services on site, possibilities to grow and learn (training) within the company and the payment of health costs. These employee activities however are requirements set by Kenyan labour law, on for instance minimum wage, travel allowance, housing allowance, working hours and working conditions, to which companies are obliged to comply (see box 3.3.1). This could mean that the employee well-being activities carried out by the companies are no more than compliance to Kenyan law, making it debatable whether these activities can be regarded as responsible business and to what extent. However, many Dutch companies argued that their employee terms and conditions are a lot better than those of their competitors, in particular compared to Indian and Israeli enterprises. Due to the large amount of corruption still present in Kenya, it possible for companies to bribe government officials to look the other way regarding the labour laws (see box 6.1.1).

The interviewed Dutch enterprises on the other hand also mentioned activities that are not requirements set by Kenyan law, for example providing lunch and tea at the workplace, supporting employees with access to loans, offering free HIV/AIDS testing on World Aids Day, providing condom dispensaries at the workplace, arranging employee of the month awards, organizing a clothing fundraiser and providing counselling activities.

#### **Box 6.1.1 CORRUPTION IN KENYA**

The corruptive activities in Kenya take on different forms and are expressed through different government institutions. Corruption is infiltrated in all levels of the Kenyan governmental system. Companies interviewed for this research for instance argued that every governmental procedure costs money, not only official costs, but also unofficial costs in the form of bribes demanded by the government officials. Officials tend to complete on step of the procedure before starting on the next step and generally demand money for each step of the procedure. In addition, the expertise of officials is often a problem because many officials have no experience in the procedure they are in charge of. The costs for procedures are dependent on the official and the amount demanded for bribes. As this is

never clear from the beginning, calculating costs in advance is not possible. This uncertainty and lack of information about procedure prices makes it hard for companies to make a yearly budget. The only certainty companies have is that a bribe has to be paid.

In addition, governmental tax inspections are done on a very irregular basis and it can sometimes take up to 5 years before an inspection takes place. In these 5 years mistakes can have been made in an enterprise's bookkeeping. Many interviewed companies describe occasions in which Kenyan officials search as long as needed to find any small mistake in the bookkeeping to be able to receive a bribe. If bribes are not paid the inspection is not validated. There is no system in place that verifies the decision of the government official conducting the inspection, which makes their decision final and could mean the end of your business. This forces the companies to pay the demanded bribes in order to pass the inspection and not receive any higher fines.

Furthermore, export permits are given away quite easily and can be bought even when companies do not comply with requirements. This means that companies that do not comply with quality standards can still export their product. Bribes are also paid when enterprises need officials need to look the other way regarding Kenyan labour and environmental laws.

### 6.1.2 Communities

The focus on community well-being activities is not the primary focus of the interviewed Dutch companies in Kenya. Several companies argue that financially supporting communities and community project generally have no significant benefit for the enterprise itself, therefore these companies only invest in community well-being if the company can directly or indirectly benefit from the investment made. The following quote highlights this view:

*"We don't want to be involved in philanthropic nonsense. Any investment made needs to also benefit the enterprise itself" (Company, 17)*

Although of little focus, community activities are far from neglected and a range of different activities are adopted by the interviewed enterprises. Several common examples of community activities employed by the interviewed companies are: the restoration and building of schools and clinics, the financial contribution to educational programs in schools, supporting orphans with school tuition, water purification programs for surrounding villages and the financial contribution to lunch and tea in surrounding schools. These activities are generally provided in the form of donations and have an ad-hoc mentality, when money is available and when communities need it. One of the interviewed Dutch companies, which purifies and bottles drinking water, daily gives 10.000 litres of healthy drinking water free of charge to schools. Other companies were in addition involved in training the community about the environment and about efficient water and land use. Furthermore, companies in the Naivasha region donated money to the Naivasha rotary, which then used this money to financially support a chosen community project.

Several companies feel that their contributions to well-being improvements of the people in surrounding communities is often not recognized or appreciated. Although the direct financial contributions to communities are not large, the presence of these companies also indirectly benefits the surrounding communities. For instance, because there is more money going round and to be spent in the area, and communities benefit from the infrastructure, jobs, trade improvements made by these companies.

### 6.1.3 Environment

Akin to employee well-being activities, environmental activities form an important part of the responsible business practices of the interviewed Dutch companies in agribusiness in Kenya. However, also in this case the Kenyan environmental laws are well established and encompass issues as the protection of lakes, rivers and ponds, the protection of wildlife, the management of waste and

the management of pesticide and fertilizer usage (see box 3.3.2). The National Environment Management Authority (NEMA) performs audits each year on the environmental performance of all companies in Kenya and their compliance to the Kenyan environmental laws.

Environmental activities employed by Dutch enterprises that fall under the environmental protection laws of the Kenyan government are: having an integrated pest management system (IPM) in place, the management of water usage, waste disposal management and the managed usage of pesticides and fertilizers. In addition, the majority of these environmental activities are requirements set by the range of certification labels and standards to which many of the interviewed companies are certified. On the other hand, the interviewed Dutch companies also mentioned environmental activities that are not required by Kenyan law or by certification standards. These activities are mainly: recycling used water, making sure that waste water stays in the farm, (re)planting trees, training employees on good environmental practice, changing greenhouse lighting systems to LED lights, decreasing the usage of lake Naivasha water, educating farmers (suppliers) about the possibilities of biogas, recycling waste, promoting drip irrigation amongst small-holder farmers, increased usage of solar energy, and minimizing the usage of non-renewable resources. In addition, several larger companies in the Naivasha region have made it their goal to manage the large amount of wildlife in the region. Large patches of land around the lake, which would otherwise have been used for greenhouses, are bought up by these companies and left as they are so that the wildlife in the area can roam around undisturbed.

A majority of the interviewed companies operational in the Naivasha region are member of the Lake Naivasha Growers Group (LNGG). The LNGG is a collaborative effort of flower growers to promote environmental protection of the region. In addition in the code developed by LNGG there are standards on worker welfare, health and safety, waste disposal and recycling and the ban of toxic chemicals. This code is however voluntary and is not audited on. The LNGG in addition implements community and environmental protection project with the fee money paid by the members, for instance the installation of rubbish bins in the region.

Furthermore, several companies financially support the charity organization Rhino Ark, which is rather active in environmental protection and conservation. Activities of Rhino Ark are for instance building fences around the wildlife parks in the Naivasha region and the protection of the Aberdare and Mt Kenya mountain ranges.

#### **6.1.4 Customers**

Customer well-being activities are a major focus area for Dutch enterprises in agribusiness in Kenya. The activities, however, are rather straightforward and mainly encompass keeping a good business relationship with customers, by improving customer service, providing clients with (economic, social and environmental) performance of the enterprise and responding to customer product wishes. Through frequent dialog with their clients, companies can cater for their demands and produce products accordingly.

Recently, companies have been experiencing demands from customers in the form of certification labels and standards. More and more interviewed companies are finding they have to comply with these labels to sustain their market. This is especially the case for companies that produce for the international market and have supermarkets or warehouses like the IKEA as a customer of their product.

#### **6.1.5 Suppliers**

Suppliers are for some interviewed Dutch companies of great importance to the business operations, while for others they are of little importance. This difference in supplier importance results in the implementation of different supplier well-being activities. Especially in the flower sector, most

companies do not have any form of relationship with their suppliers, only the price and quality of input products is found important. The following quotes emphasize this view on suppliers:

*“The type of relationship depends very much on the suppliers themselves. The target is to come to a long term relationship where both benefit but in practice this is not always the case” (Company, 18)*

*“We tend to be reasonably loyal to our suppliers, although it is a very competitive industry that we operate in” (Company, 30).*

Other interviewed Dutch companies, mainly in the horticulture and dairy and livestock sectors, rely heavily on the input of suppliers. To make sure that these companies can rely on the regular supply of inputs, and to the agreed price, amount and quality, liability contracts are signed between both parties. In addition, having clear agreements with suppliers and creating a long term relationship with them is found of great importance. In several cases suppliers are already loyal to the company and contracts are not found necessary. Other companies, however, argue that it is hard to get a relationship with their suppliers because they have a powerful market position, making it easy for them to cheat companies, money and product quality wise. Only one of the interviewed companies was involved in the knowledge and capability improvement of their suppliers, the small-holder farmers, by providing trainings.

### 6.1.6 Investors and Shareholders

The majority of the interviewed Dutch companies, particularly in the flower sector, are family owned and generally have shareholders and investors from within the family and company. For this reason the shareholder related activities were of little importance to most companies. Only a small amount of the companies had investors or shareholders that were not the owners or managers of the company. For instance, a multinational company that is listed on the financial market and therefore has many shareholders. This company was very professional in providing information about the company’s economic, social and environmental performance. Other examples were companies having investors, like the World Bank and PSI (former PSOM). In these cases investors and shareholders were both actively involved in the performance of the company, and sometimes even in the management of the company. Generally the focus was put on the basics interaction with investors and shareholders, namely providing detailed information about company performance.

## 6. 2 CERTIFICATION LABELS AND STANDARDS

The importance of certification labels and standards for products produced in Kenya has increased in the last couple of years. Not only are NGOs and the government placing more attention on the need for standards, the market has increasingly been doing so as well. As a result standards and certification for several sectors are no longer voluntary but necessary to sustain either market access or to protect a company’s image. This section will discuss in detail the most common labels to which the interviewed Dutch companies in Kenya comply with.

The great majority (70%) of the interviewed Dutch companies in agribusiness in Kenya are certified by a range of different international and national certification labels and standards. Of these certified enterprises, about 38% is domestically certified, 31% is internationally certified and 31% is both domestically and internationally certified. In addition, about 50% of the non-certified enterprises, at the moment of interviewing, indicated they were to get certified in the near future.

The national certification labels most certified by were those of the Kenya Flower Council (KFC), specific for the flower sector, and the Kenyan Bureau of Standards (KEBS) (table 15).

*Table 15: Amount and percentage of enterprises with a national and certification label, n=26*

NATIONAL	Abs	%
KFC	12	32%
KEBS	6	16%

The Kenyan Flower Council is a certification label specific for the flower and plants sector in Kenya. The members of KFC comprise of 60 growers and exporters of cut flowers and plants who own 70 farms throughout the country. The primary objective of KFC is to foster the responsible and safe production of cut flowers in Kenya, while protecting the natural environment and promoting the welfare of all farm staff. To foster this, KFC has developed a code of practice or certification scheme, which operates at two levels, silver and gold. The silver standard mainly has its focus on employee health, safety, supervision, welfare and training, social accountability issues, good agricultural practices (GAP), integrated pest management (IPM), environment management and proper record keeping and documentation. This silver standard is fully benchmarked to GlobalGAP, Tesco's Nature and Fair Flowers Fair Plants (FFP). In 2011, 60 companies had achieved silver certification; hence comply with GlobalGAP, Tesco Nature and FFP certifications. All 32% of the interviewed Dutch enterprises with the KFC standard had the silver level. KFC's gold standard is the highest certification of the Council. It awards companies with the highest accreditation for environment, health & safety, good agricultural practices and quality management systems, applied and monitored daily. This gold standard is based on the ISO 14001 (environmental) framework and other similar environmental systems. At the moment, 9 companies have achieved the gold certification standard. KFC is furthermore, very successful in lobbying for the sectors interests at government level, and in representing the flower sector both locally and internationally, and members are kept fully up to date about government policies and laws applicable for the flower sector (see appendix 5) (Wolff, 2011; Tallontire & Greenhalgh, 2005).

The Kenya Bureau of Standards (KEBS) is one of the leading Certification bodies in the East and Central African Region. The KEBS has as its primary function the promotion of standardization in the sectors commerce and industry. KEBS is accredited to certify companies on different standards, environmental, quality management, health and safety, food safety management, information technology management, information security management, hygiene practice in food establishments and catering services (Wolff, 2011; KEBS, 2012).

The international certification labels most certified by are GlobalGAP., MPS, Fairtrade (FLO), Fair Flowers Fair Plants (FFP) and the ISO standards 14000, 22000 and 26000 (table 16).

*Table 16: Amount and percentage of enterprises with an international certification label, .n=26*

INTERNATIONAL	Abs	%
MPS	8	21,6%
ISO	5	13,5%
Fairtrade (FLO)	4	10,8%
GlobalGAP.	2	5,4%
FFP	2	5,4%

GlobalGAP, also known as EUREPGAP, is a code developed in Europe specific for the agriculture (including aquaculture) sectors in the world. GlobalGAP has established standards for good agricultural practices (GAP) in the food sector. Specific focus is put on food safety and developing greater traceability throughout the value chain of a product, intended to meet consumer concerns about pesticides and food hygiene. In addition, great emphasis is put on the assurance of product quality. Environment and worker welfare issues are of secondary concern and social issues are practically not addressed in the GlobalGAP standard. This standard was argued by the two certified companies to have become obligatory to access the European market with fresh products. For non-fresh products (dried, processed) the standards is not (yet) obligatory (see appendix 5) (Tallontire & Greenhalgh, 2005).

MPS (Milieu Project Sierteelt) is a Dutch certification label specific for producers and traders in the flower and cut flower industry. MPS is a combined environmental and labour code, which was initially based on only environmental standards for pesticide and water use, but was later expanded to

include employee standards for working conditions. This has resulted in different types of certification, the MPS environmental standard with gradings of MPS-A, B or C, and the MPS Social standard (MPS-SQ). The standard works with different compliance levels; the better a company complies with the requirements of the standard the higher the MPS level (A, B or C) of that company. The interviewed Dutch companies are mainly certified by the MPS environmental standard. Just a few companies had the MPS social standard certification (Tallontire & Greenhalgh, 2005).

The Fair Trade label of the Fair Trade Labeling Organization (FLO) assures farmers a fixed minimum price for products. The standard is not product or sector specific and particularly deals with producers, traders and retailers in the value chain of a product. FLO standards are applied to ensure that contracts, prices, and other trading practices continue to reflect the goals of fair-trade along the entire product value chain. FLO has also developed general standards for small producer organizations, hired labour, and contract production applied to all producers and products and additional product specific standards for certain crops (Tallontire & Greenhalgh, 2005).

Fair Flowers Fair Plants (FFP) stimulates the production and trade of flowers and plants cultivated in a sustainable manner. The standard deals in particular with growers, traders, retailers and consumers in the flower industry. Emphasis is placed on the environment, on issues as crop protection, fertilizers, energy and water used for production processes throughout the company, and of the separation of waste water. Social issues as freedom of association, no employee discrimination, minimum wages, working hours, healthy and safe working conditions, no child labour and no forced labour are also emphasised in the standard (Tallontire & Greenhalgh, 2005).

There are several different types of ISO certification. The main ISO certifications to which the interviewed Dutch companies in Kenya are certified are ISO 14000, ISO 22000 and ISO 26000. ISO 14000 addresses various types of environmental management. The standard provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance. ISO 22000 specifies requirements for food security and food safety management for companies and organizations in the food value chain, to ensure that food is safe at the time of human consumption. The standard involves interactive communication, system management, prerequisite programs and Hazard Analysis and Critical Control Point (HACCP) principles. ISO 26000, on the other hand, provides guidance to companies on social responsibility behaviour and possible actions, but is merely a guideline and is not certifiable (Tallontire & Greenhalgh, 2005).

For each of the discussed certification labels, audits on the performance of the companies regarding the specific requirements are performed every year. If a company does not comply with all the requirement of the label it will not get certified until it makes sure compliance is reassured.

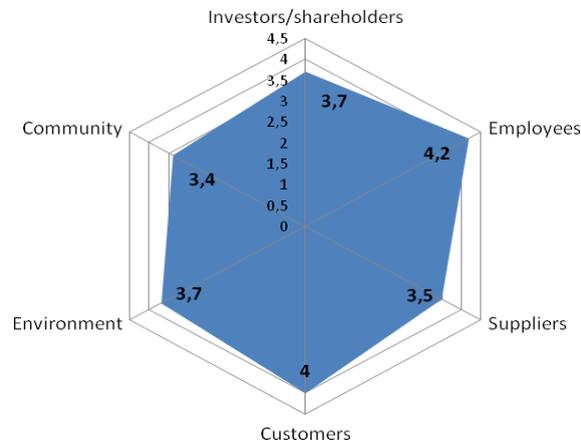
### 6.3 RESPONSIBLE BUSINESS FOCUS AREAS

To find out in more detail how responsible business is practiced by Dutch enterprises in agribusiness in Kenya, the enterprises were asked to answer to what extent (from 1 to 5, 1 being 'not at all', and 5 being 'to a large extent') the enterprise is active in different areas of responsible business activities categorized by six stakeholder groups, management, employees, suppliers, customers, environment and community. For each stakeholder group, 10 statements on responsible business activities were to be answered by the enterprises (appendix 2). Figure 11 illustrates the results of this question.

The figure illustrates that the responsibility level of the interviewed Dutch enterprises in agribusiness is highest on employee and customer related activities. A reason given for the great focus on employees and customers is that these stakeholders are essential for the survival of an enterprise. Of the 10 statements presented on employees, the ones companies scored highest on were: *the enterprise employs locals where possible (4.8)*; and *the enterprise provides clean, healthy and safe working conditions (4.5)*. On the other hand, the statements on employees that companies scored lowest on were: *the enterprise encourages employee participation in community projects (3.3)* and *the*

*enterprise is paying its employees more than similar local companies (3.9).* Reasons for the low score of this last statements is because several companies believe that paying employees more than similar local companies is not responsible at all, as it distorts the competitiveness of the market and can put local companies out of business.

Figure 11: RB focus of Dutch enterprises (with policies/processes) on different stakeholder groups.



Motivations given for the great emphasis on employee related activities are an outcome of the company's investments in employees. When hired, employees go through a training in how to handle the specific product, which costs enterprises time and money. Therefore companies invest in the company loyalty of employees by providing good salaries, good working conditions and growth opportunities for employees within the enterprise. In addition, as previously discussed, the well-established Kenyan labour laws and the increased international standardization on employee conditions could be an underlying cause for the great focus on employee related responsible activities.

Of the statements presented on customers, the ones companies scored highest on were: *the specification of products and services is clear, including, where appropriate, quality, total cost, delivery charges and timescales for delivery (4.4); terms of business with customers are clear and not to be deviated from (4.4); and the enterprise regularly seeks and uses customer feedback (4.4).* On the other hand, the customer statements on which the companies scored lowest were: *the enterprise takes into account the demands of the poor as customers when developing new products and services (2.6); and the enterprise has a procedure in place to share performance standards with clients (3.5).* As this first statement least focused on indicates, companies are not focussed on product production for the base of the pyramid. The focus on customer related responsible business activities is mainly ascribed to the fact that markets are uncertain and making sure that customers are satisfied and maintaining a good business relationship with customers means more secure product sales and an income for the companies.

The responsibility levels of the interviewed companies are lowest on supplier and community related activities. The statements on suppliers that companies scored highest on were: *there is a process to ensure that all suppliers and contractors are routinely paid in accordance with agreed terms (4.2); and the enterprise maintains long-term purchasing relationship with its suppliers (3.9).* On the other hand, the supplier statements on which the companies scored lowest were: *the enterprise invests in local small-scale suppliers to improve the volume and quality of their products and services (2.6); and the enterprise supports its suppliers in improving their environmental, social and economic performance (2.8).*

Reasons for the little focus on supplier activities can be ascribed to the fact that most Dutch enterprises either import the supplies needed or acquire them from large supplier companies. This is especially the case in the flower sector. However, for the horticulture and dairy and livestock sectors,

the suppliers, generally small-scale farmers are of great importance to the companies. These differences between the sectors will be discussed in more detail in the next section.

The statements on community activities that companies scored highest on were: *the environmental and social impacts of the enterprise on the surrounding communities are mitigated (3.8); and the enterprise is engaged in initiatives contributing to local development because it has a positive influence on the overall profitability of the business (3.8)*. On the other hand, the community statements on which companies scored lowest were: *there is a process in place to deal with enquiries and complaints from members of the local or national community (2.9); and the enterprise caters for the community's demands and needs (3.2)*.

As was already illustrated in the previous section, community activities are undertaken by the interviewed Dutch companies but are not regarded as very important to their business models, particularly when investments in surrounding communities do not directly or indirectly benefit the enterprise. The high company score on the statement *'the enterprise is engaged in initiatives contributing to local development because it has a positive influence on the overall profitability of the business'* underlines this.

The responsibility level on environmental and shareholder related activities is in both cases 3.7. The environmental responsibility statements on which companies scored highest were: *the enterprise identifies and mitigates impacts of its operations and products on the environment (4.1); and the enterprise strives for careful use of land (4.0)*. The statements that companies scored lowest on were: *there is a process to encourage employees and contractors to participate actively in environmental protection (3.2); and the enterprise strives to reduce its greenhouse gas emissions (3.3)*. As the statements suggest, Dutch companies primarily focus on the environmental issues that are already required by the Kenyan environmental law (see box 3.3.2). Issues as encouraging a company's stakeholders to also get involved in environmental protection are not prevalent. Although environmental issues are one of the main focus areas of Dutch enterprises in agribusiness only 41% of the enterprises actually have policies or processes in place to take into account the environmental ramifications of their operations and act to minimise them accordingly. This highlights some inconsistency between principles and action.

The shareholder statements on which companies scored highest were: *the enterprise strives for competitive return on investment (4.3); and the enterprise considers environmental and social factors in its medium and long-term strategy (4.1)*. Statements on which the companies scored lowest were: *there is a process to assess the compliance of corporate governance with relevant local codes (3.3); the enterprise provides its shareholders with clear and comprehensive information about social performance (3.4); and the enterprise provides its shareholders with clear and comprehensive information about environmental performance (3.4)*.

## 6.4 RESPONSIBLE BUSINESS PRACTICES COMPARISON

To find out whether there are specific differences regarding the responsible business practices of Dutch enterprises for the four agribusiness subsectors, the market focus of a company, the size of a company and whether a company is certified or not, a comparison is made between these company characteristics.

### 6.4.1 Company size

This section aims to find out whether the responsibility levels differ between SME's and large companies. The 37 interviewed Dutch enterprises were divided into different company size groups based on their turnover and the amount of employees working for the company. Figure 12 illustrates the total responsible business level of large companies and SMEs. Clearly the responsibility level of large companies is higher than SMEs, with a difference of about 0.45.

Figure 12: Average level of responsibility for large companies and SMEs

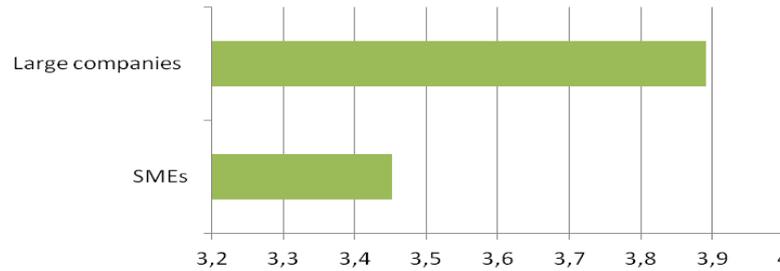
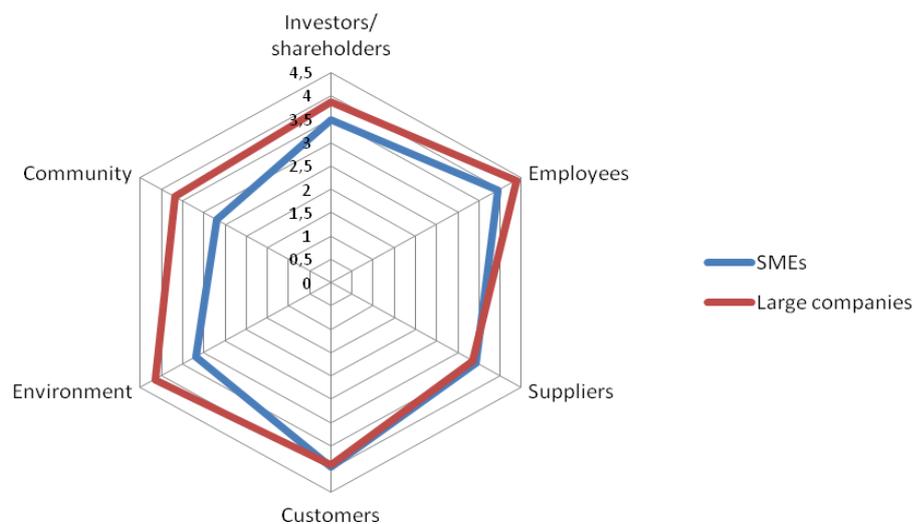


Figure 13 illustrates the responsibility level per focus area for large companies and SMEs. The focus areas between the two groups are somewhat different, as SMEs tend to focus a less on community and environment related activities than large companies. These results could possibly be ascribed to the fact that SMEs often lack sufficient human and financial resources to be able to invest in certain areas. In addition, SMEs focus less on investor shareholder issues than large companies. Both company size groups focus most on employee related activities and are regarded as the most important stakeholder group.

To find out whether SMEs and large companies are also statistically different, a Mann-Whitney test was conducted for the total responsibility level of the two populations. The test showed there is a significant difference in the distribution of total responsibility across the two company size groups. In addition, to find out whether there is statistical a link between the responsibility level and company size a correlation (spearman’s rho) test was conducted. Between these variables there is a correlation present of 0.4, which indicates that as company size increases the total level of responsible business also increases. Hence companies that are large in size (multinationals, large companies) have a higher total responsibility level, and are more responsible than companies of small and medium size.

In addition, for each individual responsibility focus area and company size a correlation test was conducted. The responsibility focus areas that correlate with company size are employees (0.5), environment (0.6), community (0.4) and investor and shareholder responsibility (0.3). This means that as company size increases the responsibility level of these focus areas increases as well. Hence larger companies are more responsible regarding these four focus areas than small and medium sized companies.

Figure 13: RB focus of Dutch enterprises on different stakeholder groups, per company size



To find out in more detail which characteristics that determine company size are of influence on a company’s responsibility level, a correlation test was conducted for the variables amount of employees and responsibility level, amount of land (in hectares) and the responsibility level, and turnover and

responsibility level. Between all variables and a company's responsibility level a correlation coefficient was found, of 0.3 for company turnover, of 0.4 for the amount of employees and of 0.5 for the amount of land. This means that as company's turnover, amount of employees and amount of land increases, its responsibility level in addition increases.

#### 6.4.2 Agribusiness sub sectors

This section aims to find out whether the responsibility levels differ between companies in the different agribusiness subsectors, floriculture, horticulture, dairy and livestock and agribusiness services. Figure 14 highlights the responsibility level of the different subsectors and illustrates that the responsibility level of the dairy and livestock sector is somewhat higher than that of the other sectors. The agribusiness services responsibility level is rather low compared to the other sub sectors.

Figure 14: Average level of responsibility for different sub-sectors in agribusiness

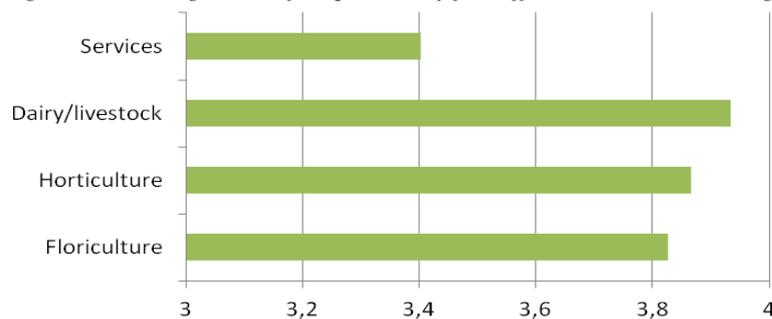
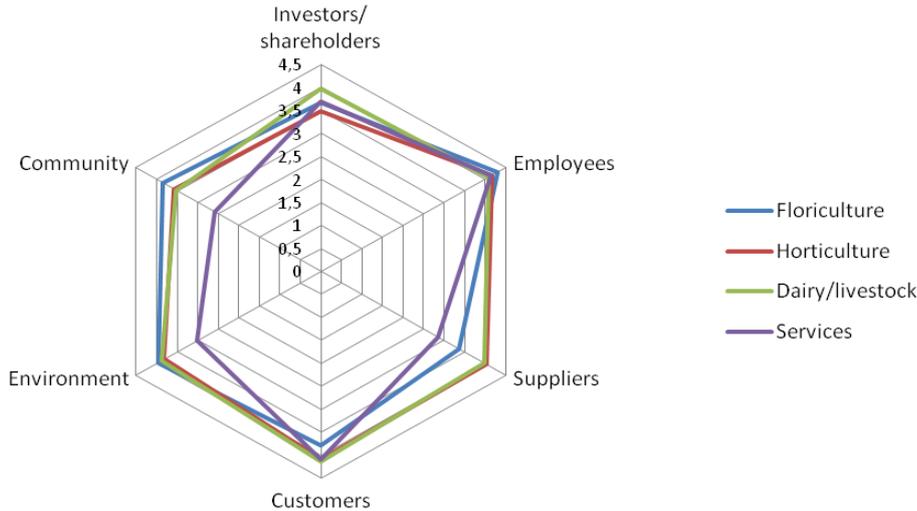


Figure 15 illustrates the main differences and similarities between the subsectors regarding the focus areas of the responsible activities. In the floriculture subsector focus is put most on employees and environment related activities, while least focus is placed on supplier related activities. On the other hand, for the companies in the horticulture and dairy and livestock subsector suppliers are one of the most important focus areas. This is mainly due to the fact that the enterprises active in horticulture and dairy and livestock have local farmers (often small-holder farmers) as suppliers. While on the other hand the other subsectors generally have large companies, either domestic or international, as suppliers. In addition, the suppliers for the horticulture sub sector supply the enterprises with the main product. Without that product, production or processing is not possible, thus making it of great importance that the business relationship with the suppliers is good. While for the other subsectors the suppliers generally supply secondary products, used to produce the main product, making it of less importance to the enterprises. However, for these results the composition of the sample must be taken into consideration as the small number of enterprises in the horticulture and dairy and livestock may not constitute an accurate representation of the industry as a whole. For this reason statistical testing is not possible for the different sub-sectors.

Interestingly the companies in the floriculture sub sector focus most on environmental issues while the sector has gotten large amounts of critique on the environmental performance of the companies in the sector. In addition, pesticide levels are argued to be about 20% higher in this sub sector than in horticulture. This negative critique on the sector could have resulted in the increased focus of companies on environmental activities. Furthermore, most flower companies are either MPS or KFC certified which could in addition indicate the strong focus on environmental activities. The next section will discuss in more detail the possible link between certification and responsibility.

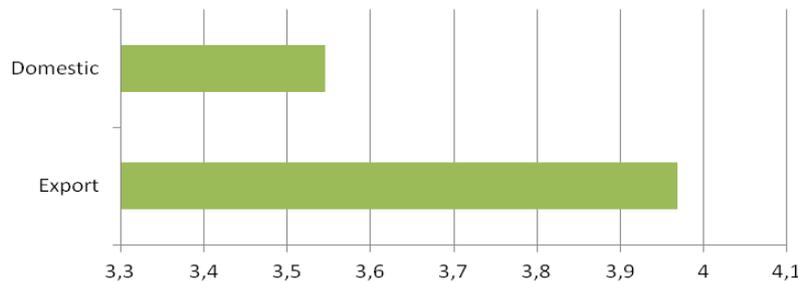
Figure 15: RB focus of Dutch enterprises on different stakeholder groups, per sub-sector



### 6.4.3 Market focus

This section aims to find out whether the responsibility levels differ between companies with an international market focus (export companies) and companies with a national or local market focus (domestic companies). Figure 16 illustrates the level of responsibility of export enterprises and domestic enterprises. Clearly the responsibility level of export companies is higher than that of domestic companies, with a difference of 0.42.

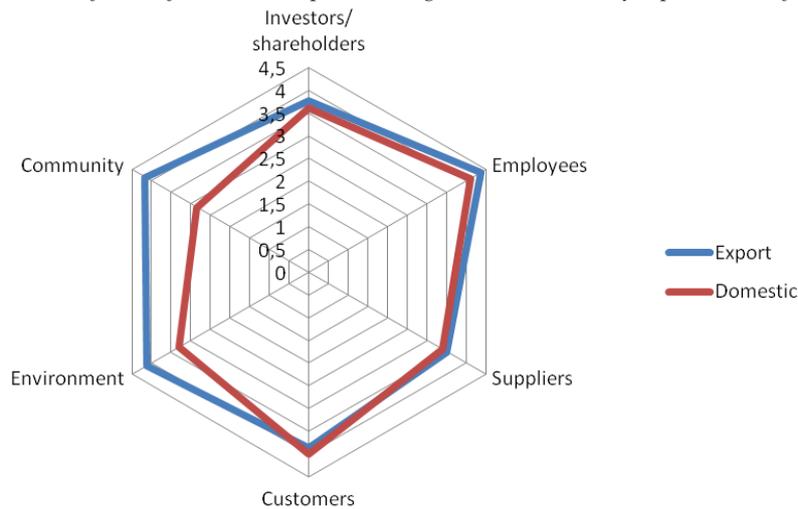
Figure 16: Average level of responsibility for export companies and domestic companies



The responsibility level for the six focus areas of Dutch export enterprises and of Dutch domestic enterprises is illustrated in figure 17. Overall, the export enterprises show higher levels of responsibility on five of the six focus areas than domestic enterprises. Particularly on community and environmental activities domestic enterprises show far lower responsibility levels than export enterprises. These results may indicate that international pressure and standardizations positively influences the responsible business practices of the export enterprises. In addition, the large difference between export and domestic companies on environment related activities could be an indication of increased global anxiety towards the state of the environment in the world, and in particular the state of environment in Kenya, such as the current concerns on climate change and human-wildlife conflicts in Kenya.

Only on customer related activities, the domestic enterprises reveal a higher responsibility level than export enterprises. This could indicate that the competitiveness on the domestic market is higher than on the international market and strong business relationships with customers are essential for domestic enterprises.

Figure 17: RB focus of Dutch enterprises in agribusiness in Kenya, per market focus



To find out whether the two market focus groups are also statistically different, a Mann-Whitney test was conducted. The test showed that the total responsibility level of the interviewed Dutch enterprises in agribusiness is significantly different for those with an international market focus and those with a domestic market focus. Thereafter, a spearman’s rho correlation test was conducted for a company’s market focus and the total responsibility level, in order to find out whether there is a link or correlation between the two variables. The test showed, with a coefficient of 0.3 that there is a correlation between the market focus and responsibility level. This means that as the scale of market focus increases the total level of responsible business also increases. Hence companies producing for the international market have a higher responsibility level and are more responsible than companies producing for the local and national market.

When testing whether there is a correlation between the responsibility levels according to the individual focus areas and an enterprises market focus, some correlate while others do not. The test showed there was a correlation between employee (0.3), community (0.6) and environment (0.4) related responsibility activities and market focus. This means that as the scale of market focus increases the responsibility level on these focus areas increases as well.

#### 6.4.4 Certified and non-certified companies

This section aims to find out whether there is a difference between the responsibility level of certified companies and of non-certified companies. As mentioned before 70% of the interviewed Dutch companies were certified by either a domestic certification label, an international label, or by both. Figure 18 illustrates the results between the two populations. Although by a rather small amount (0.1), the certified company’s responsibility level exceeds the non-certified responsibility level.

Figure 18: Average level of responsibility for certified and non-certified companies

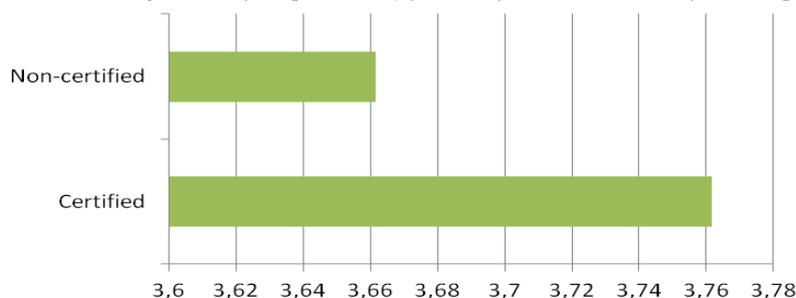
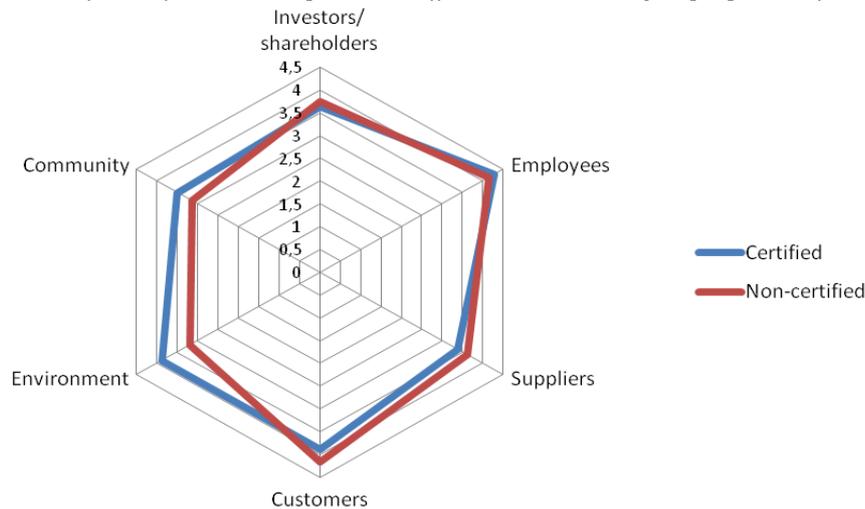


Figure 19 illustrates the responsibility level of certified and non-certified companies for the different focus areas. For some categories the certified companies show higher levels of responsibility than the

non-certified companies (employees, environment and community), and for other categories the non-certified companies show higher responsibility levels than those certified (management, suppliers and customers). There is however a rather large difference between the environmental responsibility level of non-certified and certified companies, which could indicate that certification standards have a positive influence on the amount of focus on environmental responsibility activities.

Figure 19: RB focus of Dutch enterprises on different stakeholder groups, per certification



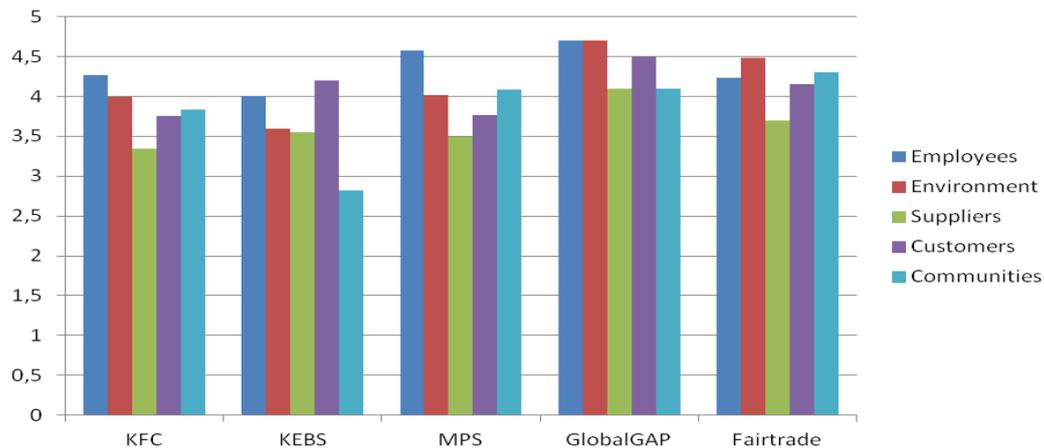
A Mann-Whitney test was conducted for the total responsibility level for certified and non-certified companies. The test showed that the distribution of total responsibility is the same across companies that are certified and companies that are not certified. In addition, a correlation test conducted between the two variables did not reveal a correlation. Also between the different stakeholder groups and certification there is no correlation present, not even for environmental responsible activities. These results are striking as the expectation was that certification influences the responsibility of companies in a positive way. The results show that for this company sample, certification does not indicate that companies are more or less responsible. However, for the companies for which certification is a market precondition, like the horticulture sector and the companies producing roses, there is a correlation between the responsibility level and certification of 0.5. This means that the companies for which certification is demanded have a higher responsibility level than companies for which certification is not demanded (voluntary).

Furthermore, to find out whether the market focus of companies determines whether they are certified or not a correlation test (spearman's) was conducted for the variables market focus and certification. The test showed a positive link between the two variables of 0.3, meaning that as the scale of a company's market focus increases the chance that this company is certified also increases. These results are in line with the results illustrated above, and could indicate that companies and their responsibility level are impacted by certification demands on the international market. In addition, a correlation test was conducted to find out whether there is a link between certification and company size. The test reveals there is a link between company size and whether it is certified or not of 0.5. This means that as company size increases the chance that the company is certified increases, indicating that larger companies are generally more certified than smaller companies.

Several Dutch companies comply with standards that specifically focus on environmental elements of responsible business (MPS and GlobalGAP), while others comply with standards as that emphasize on customers and supplier elements of responsible business (Fairtrade). To find out whether these companies indeed show higher responsibility levels on the issues emphasized by the standards, a comparison is made between the different standards and the average company score on environmental, employee, supplier, customer and community related activities (figure 20). The figure

illustrates that companies certified by MPS score highest on employee issues and only third highest on environmental activities. The Dutch companies with GlobalGAP certification score highest on employee and environmental issues. In addition, these companies score high on customer related activities, which are the issues GlobalGAP puts most emphasis on. Furthermore, KFC certified companies score highest on employee and environmental related activities, which are the issues emphasized on in the label. Finally, Fairtrade certified companies score highest on environment and community related responsibility activities, while the label emphasizes employee, customer and supplier issues. Hence the results presented are not convincingly in line with the expectations, as certification by a label that emphasizes certain responsibility issues, in this case, does not mean that the companies will show higher levels of responsibility on these issues.

Figure 20: RB focus of Dutch enterprises on different stakeholder groups, per certification

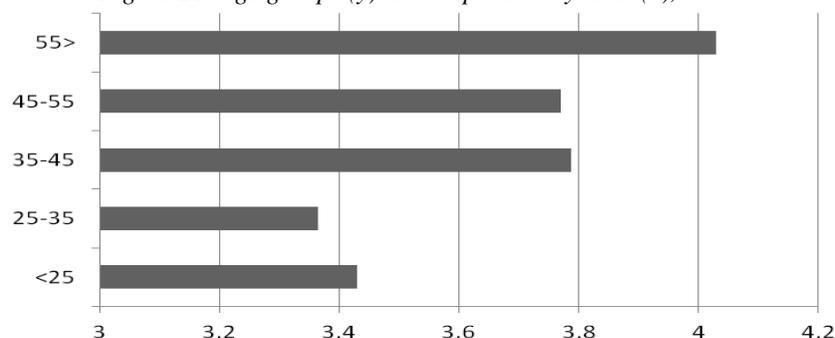


#### 6.4.5 Entrepreneurial characteristics

This section aims to find out whether the personal characteristics of the entrepreneur have an influence on the way responsible business is practiced within the enterprise. To do so a correlation (spearman's rho) test was conducted. Between the amount of years an entrepreneur has been living in Kenya and the responsibility level of that enterprise no correlation was found. Furthermore, no correlation found between the responsibility levels of entrepreneurs living in Kenya and entrepreneurs living in the Netherlands and traveling to Kenya. This indicates that the entrepreneurs that do not actually live in Kenya are not less or more responsible than the entrepreneurs that live in Kenya.

Figure 21 illustrates the responsibility level for entrepreneurs of different age groups. The figure highlights that the older entrepreneurs, the older age groups, show a higher responsibility level than the younger age groups.

Figure 21: age groups (y) and responsibility level (x), n=37.



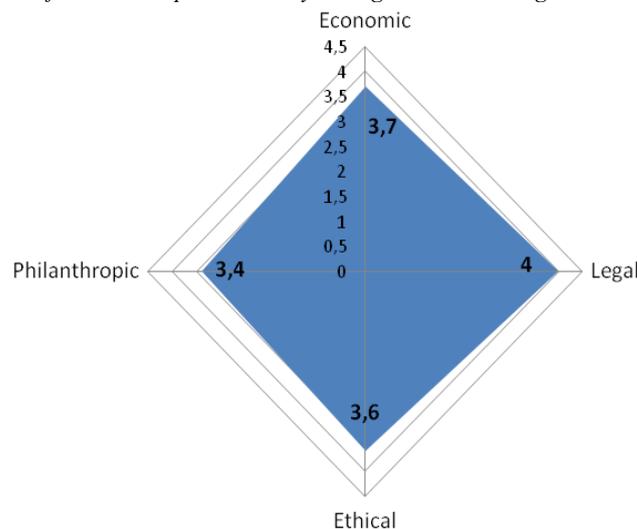
Between the age of the entrepreneur and the responsibility level there was a correlation found of 0.5. This means that as the age of the entrepreneur increases the responsibility level also increases, indicating that, in this case older entrepreneurs are more responsible than young entrepreneurs.

Finally, no correlation was found between the year an enterprise is founded and the responsibility level of that enterprise, meaning the older enterprises are not less or more responsible than the younger enterprises.

## 6.5 THE PYRAMID OF RESPONSIBLE BUSINESS

The theoretical framework discussed the four dimensions and the pyramid of responsible business of Carroll (1991). When linking the focus areas of responsible business of the companies in this research with the four dimensions of Carroll (figure 22) the results seem to be somewhat in accordance with the pyramid. Although these results are not completely in line with Carroll's pyramid, the results definitely contradict what Visser (2006) argued to be the most applicable pyramid for the African context. The Dutch enterprises in agribusiness in Kenya place most emphasis on legal responsibility, followed by economic, ethical and finally philanthropic responsibility.

Figure 22: RB of Dutch enterprises in Kenya categorized according to Carroll's four dimensions



Compliance to legislation is regarded as most important, mainly due to the large amount of corruption still existent in Kenya. Enterprises are exposed to many types of corruption, mainly present within government institutions. In this context compliance to legislation is a means of making sure the company complies with governmental rules and regulations and no bribes can be asked. However, the reality generally is that paying bribes is part of daily life for businesses in Kenya and refusing to pay a bribe will most definitely mean the end of the enterprises existence.

Being profitable is also important in the Kenyan business climate, particularly in agribusiness as risks are often high, due to fluctuating prices and the great dependency on rainy seasons. The focus on ethical responsibility is argued by several respondents to be specific for Dutch enterprises. Indian and Israeli enterprises are starting to take over in the flower and plants sub-sector because they are able to produce at lower costs, mainly because ethical responsibilities (doing what is right and fair) and often also legal responsibilities (obeying the law) are not high on their agenda. Being a good corporate citizen and contributing resources to the community or philanthropic responsibility is of least focus. This is in line with previous findings of this research, presented in previous sections.

## 7 MOTIVATIONS FOR RESPONSIBLE BUSINESS

To determine what drives responsible business in Kenya, the drivers of responsible business were examined. These drivers are strongly related to the opportunities and bottlenecks of doing business in Kenya. In addition, the drivers are strongly related to the amount of influence different stakeholders have on an enterprise. Guided by the research sub questions, *what are the drivers preventing and encouraging the engagement of enterprises in responsible business and how do enterprises respond to this?*, *how are different stakeholders within and outside the value chain affected by or affecting the responsible business approach?*, and *what is the impact of applying responsible business in the value chain of a product?*; this chapter will report on the findings. This section will first of all focus on the internal and external drivers that have an influence on enterprises and their responsible business practices and on the influence different stakeholder groups are given by the enterprises. Second the focus is placed on the bottlenecks or constraints of doing business in Kenya. Finally, related to these constraints, the impact of responsible business on a company's value chain is discussed.

### 7.1 DRIVERS OF RESPONSIBLE BUSINESS

This section discusses the internal and external drivers and stakeholder groups that influence responsible business practices of the interviewed Dutch enterprises operational in Kenyan agribusiness.

#### 7.1.1 Internal Drivers

The interviewed Dutch enterprises mentioned profit and business growth as the main reasons for the enterprise to become more responsible. By investing in responsible business activities, particularly in employee and customer related activities the competitive advantage of the enterprise was argued to be enhanced, maximizing profits and creating growth for the business. In addition, long term sustainability for the enterprise was mentioned as an important motivation for the enterprise to invest in responsible business activities and become more responsible.

The two stakeholder groups, employees and customers, were argued to be the most important drivers of responsible business. Employees are seen as indispensable for a company hence focus is placed on the constant improvement of employee conditions. Customers were argued to be an important driver of responsible business practices because they determine what happens on the market. If certain a certain standard or product quality is demanded by customers, the enterprise would have no other choice but to integrate these demands to sustain its market position. On the other hand if customers only want the cheapest prices for their products, enterprises are put in a difficult position cost wise and investments in responsible practices, like increased employee salaries, waste disposal systems, water recycling systems, will probably get postponed.

#### 7.1.2 External Drivers

Market access is argued to be an important external driver of responsible business, particularly for companies that export to the European market. During the last couple of years the requirements for companies to comply with certain certification labels, to show that products are produced under the right conditions, have increased. As a result, market access for exporting companies is increasingly linked to international standardization. Demands for enterprises to comply to certification labels has been growing, and companies that did not need them in the past are now forced to comply to the demands of labels merely to sustain market access.

Several enterprises argued that investment incentives are a strong driver for responsible business. Some interviewed Dutch enterprises received subsidies or grants from PSI (former PSOM) or the World Bank. These grants generally have requirements concerning responsible business or sustainability attached, to which a company has to comply to receive the funding. This means

enterprises receiving a grant or subsidy are often forced to be more responsible and report back to the investors on their responsible business practices.

The negative media about the environmental conditions of the Naivasha region ascribed to the flower companies in the region have been argued to be a major driver for responsible business. This media is generally originated from international NGO's, and generally entail the decreasing water levels of Lake Naivasha, the pollution of the lake and the dying species living in the lake due to the pollution. As a result of this media attention companies are increasingly aware of their impact on the environment and are taking measure to mitigate this impact. Several companies have been taking measures to prevent the negative media from attacking them, by for instance no longer using water from the lake and by recycling water. On the other hand, this media attention also negatively affects the companies that are not located around the lake and do not make use of the water from the lake, in the form of decreased product sales.

### 7.1.3 Stakeholder influence

A business's stakeholders have been receiving increased attention in the responsible business agenda. Especially the stakeholders within a company's value chain, both up and down the value chain, have been given more importance. This section discusses the influence of different stakeholder groups on the responsible business practices of Dutch enterprises operational in Kenyan agribusiness.

Figure 23 and 24 illustrate which stakeholder groups are argued by the enterprises to encourage and prevent responsible behaviour. Figure 22 demonstrates that clients and customers are regarded most to encourage responsible behaviour, followed by environmental changes and employees. Stakeholders that are least convincing are the government and suppliers. The stakeholders that prevent responsible behaviour are for the most part the Kenyan government and suppliers. Least preventing are the investors, environmental changes and employees.

Figure 23: Stakeholders encouraging responsible behaviour

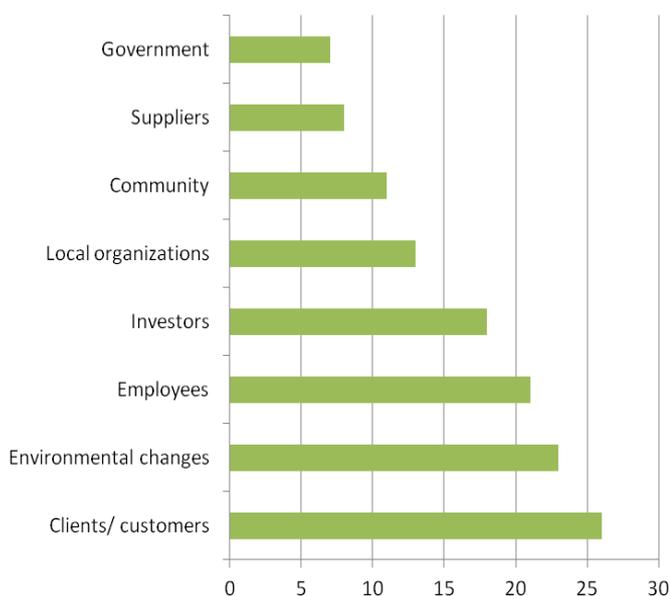
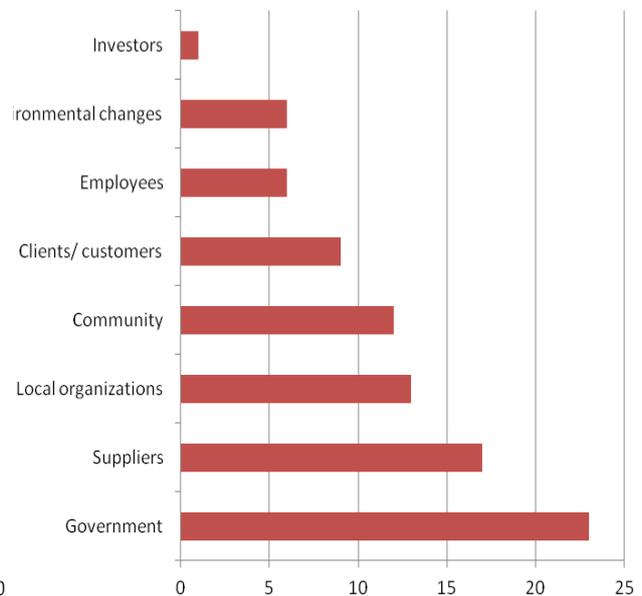


Figure 24: Stakeholders preventing responsible behaviour

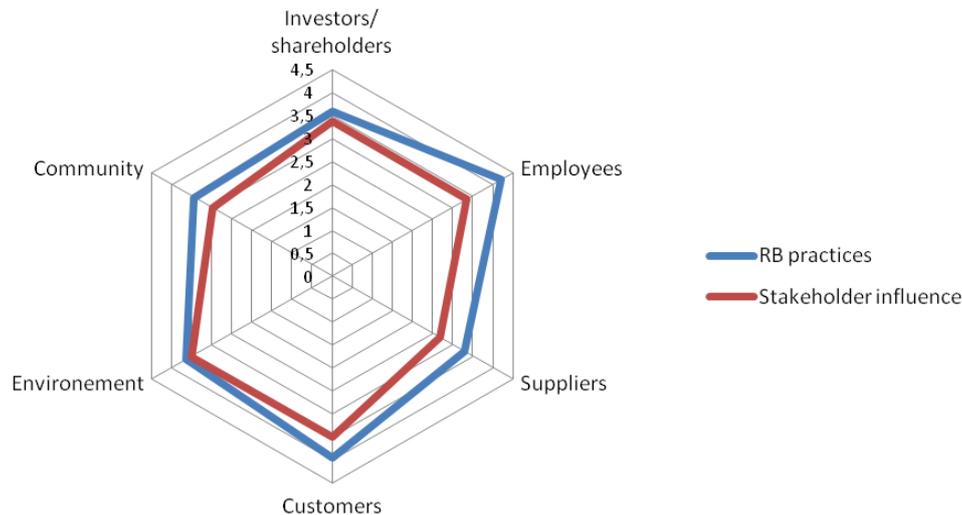


Interestingly some companies argued that the Kenyan government encourages responsible behaviour while others argued it prevents responsible behaviour. The encouraging role of the government is assigned to the attempts the Kenyan government is making in implementing laws and guidelines for the improvement of labour and environmental conditions. That the government is still very corrupt is overlooked by these companies because the situation has been improving greatly. In contrast,

however, the preventing role of the government is assigned to the lack of enforcement of rules and regulations as a result of the prevalent corruption in the Kenyan government.

When comparing these results on stakeholder influence with the results on the responsible business focus areas (chapter 6), the results are consistent with each other (figure 25). As mentioned, the three focus areas with the highest responsibility levels were employees, customers and the environment. These are also the stakeholders that are regarded to encourage responsible behaviour.

Figure 25: RB focus areas in comparison with stakeholder influence.



To find out whether the amount of influence given for different stakeholders and the degree to which these enterprises actually focus on these stakeholders are also significantly linked, a correlation test was conducted. A correlation is found between employee influence and employee activities (0.4), environment influence and environment activities (0.4), customer influence and customer activities (0.4) and between investor and shareholder influence and investor and shareholder activities (0.4). This means that as the influence of these stakeholder groups increases the amount of focus placed on these stakeholders in the responsible business practices of companies, also increases.

## 7.2 BOTTLENECKS AND CONSTRAINTS OF DOING BUSINESS IN KENYA

Most argued as a bottleneck or constraint to doing business in Kenya is the everyday corruption that enterprises have to deal with. Most mentioned were the corruptive practices in government procedures, the irregular tax audits and the import taxes (see box 6.1.1). In addition, although exporting enterprises are able to get a refund on their VAT tax, it often takes years before this actually takes place. Furthermore, export permits are given away quite easily and can be bought even when companies do not comply with export requirements, on product quality. This means that companies that do not show responsible behaviour can still and export their product. This poses a great motivational challenge to enterprises that strive to be fair and responsible. Hence, in this case playing fair and acting responsible in the context of Kenya often means the end of your business operations. Although the corruption was argued as a major inconvenience, many companies argue that you just have to accept this, that it is part of the way of doing business in Kenya. None of the interviewed companies found the corruption in Kenya a sufficient reason to end the business practice in the country.

In addition, dishonesty in import taxes poses a great challenge to Dutch enterprises in Kenya. On the import of unassembled parts no import tax is required. However, on the import of already assembled parts the import tax is 30 to 40%. This has had as a consequence that many enterprises state they are importing unassembled products even when this is not the case, just to avoid import taxes. One respondent argued that if other companies and in particular your competitors are doing this, your company has no other choice but to take part in these practices as well. If not, your

costs and product price will be 30 to 40% higher than that of competitors possibly leading to a loss of customers. One of the companies argued:

*“Corruption and the non-level playing field in Kenya will hold us back. Our competitors are able to get away without paying import duty on their paper and packaging materials” (Company 30).*

What is interesting is that many certification standards and responsible business guidelines state that enterprises are not to take part in corruptive practices and bribes. However, in the case of the interviewed Dutch companies in agribusiness in Kenya, corruption is part of everyday business and getting involved in it is unavoidable. Several entrepreneurs argued that requirements of international certification schemes sometimes clash with the Kenyan context. Enterprises are required to comply with issues that are almost impossible to comply with in the context of Kenya, like corruption. Another example is working overtime, which has strict requirements in most labels. During high seasons of product production, overtime is however necessary and Kenyans are generally very willing to work overtime because this means a larger income for that period.

Cultural tradition and the social economic conditions in Kenya were also argued to be a bottleneck of doing business in Kenya. As most workers do not have much at home, stealing and scamming occurs frequently. Dealing with crime and theft can add significantly to the costs of doing business particularly as a foreign enterprise it is a matter of time before you get robbed. Most Dutch companies have invested heavily in security measures, like watch men, watch dogs and electric fences. Another, cultural constraint is the non-reliance of contracts and agreements. The contracts and agreements with employees, landlords, and communities are often not taken seriously and are not followed up on. This means that companies could for example find that the land lord with whom they had a contract has sold the land to someone else. This brings a huge amount of uncertainty to doing business in Kenya.

A last bottleneck mentioned by several Dutch enterprises is receiving funding or loans. In Kenya itself the rent on loans is about 10%, which makes it impossible for enterprises, particularly SMEs, to pay back a loan. International or Dutch loans on the other hand are generally not provided to enterprises operational in developing countries especially enterprises active in agribusiness, which is still seen as a sector with too many risks. Thus enterprises often use private investments, making the risk of entrepreneurship higher. Even if a company is an ltd, with limited liability, in practice in the Kenyan context this does not mean anything. If a company goes bankrupt the entrepreneur will go down with the enterprise and will be paying back government officials for years to come, as was the case for one of the interviewed companies.

### **7.3 RESPONSIBLE BUSINESS AND THE VALUE CHAIN**

Little is known about the real impact and the added value of responsible business practices in the value chain of a certain product, and what this means for different stakeholders, particularly small companies and farmers. In addition, there is a lack of research on the social and economic impact of codes and certification labels in a product value chain. Hence, this section focuses on how the responsible business practices of the interviewed Dutch companies have created benefits or costs for different stakeholders in the value chain.

Results show that responsible business practices of Dutch enterprises operational in agribusiness in Kenya do not always have a positive influence on different stakeholders in the value chain. Particularly compliance with ever increasing quality demands and requirements for products from European markets, without affecting the competitive advantage of the industry, poses a serious challenge for the entire value chain. It has become increasingly difficult for especially Dutch vegetable exporting companies in Kenya to have small-holder farmers as their suppliers. Several companies have had to change to a different business model or abandon it altogether because complying with traceability and quality control requirements, necessary to access the European market, led to high

costs or was not possible at all. Hence, the small-holder business model has generally changed towards several medium land holder farmers (between 5 ha and 15 ha), who are able to deal with the strict food safety and traceability requirements. This has also been the case for a Dutch enterprise producing green beans and peas for the European market. The company experienced that it was necessary to get GlobalGAP certified to be able to sustain market access to the EU. However, to be able to comply with the requirements of GlobalGAP, the company needed to assure traceability. This meant the product needed to be traceable all the way down to the supplying farmers and that requirements as pesticide and fertilizer usage, waste disposal, would need to be monitored and transparent for consumers. Not only was it very cost expensive to assure traceability, it was hardly possible to monitor over 1000 small-holder farmers on their production methods. Hence, the company decided to take more of the green beans and pea production into their own hands and work together with a much smaller number of farmers with larger patches of land. As a result, smallholder farmers lost their market access to the European market and needed to find new markets for their products. Hence, present EU market conditions have influenced a shift in Kenyan agribusiness to more integrated value chains represented by larger integrated exporters.

In the case of the production of avocados the situation was even worse when certification was required for European market access. The avocados were mainly produced by farmers with a small patch of land on which, among other crops, 1 or two avocado trees grew. As there were so many farmers involved in the production of avocados, monitoring the quality of the product was to time and cost expensive. The company thus reluctantly decided to stop the production and export of avocados to the EU altogether. Currently that same company is working together with Solidaridad and the Embassy of the Netherlands on a project to restart the production of avocados in collaboration with smallholder farmers. To make sure that the previous issues do not arise again, the company has chosen to work together with smallholders located close to the company and with those that the company has already built a relationship with in the past. In addition, as there is still a lack of knowledge among avocado producing farmers about the right harvesting periods, the quality of avocados, the use of pesticides and fertilizers and how to prevent diseases, the farmers are trained on these issues. The avocado production will in first instance be produced for the domestic market but once quality and traceability can be guaranteed, production for the international market will be pursued.

Other companies have taken production of the necessary product into their own hands, to be able to ensure consistent supply and quality. Many smallholder farmers have little or no knowledge on how to have sufficient water available for the production of their products in the dry seasons. As a result, many products are very dependent on the rainy season, which means in dry seasons product prices increase due to a decrease in production. Hence, to be able to ensure a consistent and reliable supply of the needed product, production is increasingly done within the enterprise itself.

Currently in Kenya, there is only one Dutch vegetable exporting enterprise that works with traditional small-scale farmers (about 5000 farmers) that have a land possession of no more than 2 hectares. As the crops produced, dried chillies and dried paprika are very labour intensive it is rather difficult to grow them large scale. This enterprise is able to comply with international standards and customer requirements and work with smallholders because product processing is also done in Kenya and the product is not exported to the EU as fresh product. In addition, the enterprise works closely together with its client and provides them with transparency on the production process. Furthermore, farmers are obliged to sign an agreement with the enterprise on the amounts and quality of the product supplied. For the production of chillies, hardly any pesticides are necessary, however when it is necessary farmers are trained on the pesticide and fertilizer products allowed for use. For paprika the case is somewhat different. The enterprise has taken over the part of pesticide application in order to assure that everything is applied correctly and timely. Farmers let the product pre-dry on the farm and dry it then in the sun. The enterprise then buys and cleans the product and subsequently exports it. In addition, the enterprises clients in Europe always apply heat treatment to all the imported products

which means that also here quality standards are not per se a problem as the heat treatment gets rid of all the bacteria. For these reasons, the enterprise is still able to contract smallholder farmers for the cultivation of dried chillies and dried paprika.

Dutch enterprises producing for the local or national markets do not have this same issue, because quality requirements are not strict. Although 96% of all horticultural products are consumed locally, there has been little effort towards ensuring that the products for the domestic market complies with the same or even similar regulations as produce for the international markets. The enforcement of environmental standards, pesticide use, labour laws, ethical trade practices and public health are poor. In addition, in the floriculture sub-sector standards are still mainly voluntary, particularly for companies producing for the auction in Aalsmeer, the Netherlands. The auction does not demand any type of certification or labour and environmental codes, yet. This allows Dutch enterprises to promote their voluntary adoption of certification labels as a competitive advantage. On the other hand, companies producing for supermarkets or specialist flower shops have very strict requirements to comply with, generally applied in the form of compliance to certification labels and standards. Examples are Dutch companies producing, mainly plants and cuttings for the warehouses as the IKEA.

The theoretical framework presented that enterprises are increasingly expected to implement responsible business practices across the entire value chain. Results demonstrate that Dutch enterprises in agribusiness in Kenya place little emphasis on strategically targeting the value chain in their responsible business practices. Although 57% of the enterprises argued to have a process to encourage environmentally responsible use and disposal of products within the value chain, only 27% argued to support its suppliers in improving their environmental, social and economic performance. Especially in the flower subsector enterprises are not at all involved with their suppliers and their responsible business practices. Suppliers are selected according to the price and quality of their products. However, under which conditions these products are produced is not questioned.

## 8 SUSTAINABLE DEVELOPMENT THROUGH RESPONSIBLE BUSINESS

It is proclaimed that responsible business can have a significant impact on the development of developing countries. This section will discuss this claim in detail and focus specifically on the environmental, economic and social developmental aspects that have occurred as a consequence, direct or indirect, of the responsible business practices of Dutch enterprises active in Kenyan agribusiness. This section is guided by the second part of the main research question *how do the responsible business practices of Dutch enterprises in Kenya contribute to local sustainable development?*

It is rather difficult to answer what the exact contributions are of the interviewed Dutch enterprises to sustainable development and whether their responsible business practices have a more negative or positive impact on local development. What is clear, however are the different processes and developments that have occurred in the direct surroundings of the companies and the implications this has on environmental, economic and social development of the area. A better understanding of these developments could enable companies and policy makers to limit the negative aspects, while increasing the positive aspects, making responsible business practices a contributor to local sustainable development.

### 8.1 ENVIRONMENTAL DEVELOPMENT

The agribusiness sector and in particular the floriculture sector, have received a large amount of critique on their impact on the environment. The main reasons for critique are the pressure on land and the decreased water levels and water quality of surrounding lakes and rivers. Although this critique has led to more awareness concerning the environment and to adjusted business models focused more on environmental protection and conservation, the environmental conditions in several areas are still worrisome. Although companies need to apply for permits for the abstraction of water from lakes, and all companies claim to possess these permits, a study of the Water Resources Management Authority (2010) showed a large number of illegal boreholes and water abstraction points around Lake Naivasha in 2010. Another critique concerning water is the global trend called the virtual water trade, which indicates the usage of water for export product production. As flowers consist of 90% water and are exported to mainly the European Union this affectively means a company is exporting water out of one of the driest countries in the world to one of the wettest regions in the world. In addition, degradation of soils due to monocropping and intensive use of land poses problems in many areas in Kenya.

In addition, due to the prosperous flower industry in the Naivasha region, the population around the lake has been rising at alarming rates. The area has witnessed thousands of people arriving to work in the greenhouses and processing plants. As a result of this population growth the pressure on land in the area has increased, leading to illegal fishing, poaching for meet, degradation of plants in the area, chopping trees for firewood and water pollution. These issues are not only a problem in the Naivasha region; this has also been the case in Limuru (just outside Nairobi city) where several interviewed Dutch flower farms are located. About a decade ago Nairobi started to expand rapidly and further expansion is expected in the years to come, increasing the pressure on land surrounding the city. This further expansion of the city could have drastic consequences for both the communities in surrounding areas but also for the companies located near Nairobi.

It is undeniable that the environmental situation in the Lake Naivasha region can be considered an issue and that it could be questioned whether the presence of Dutch flower companies is positive or negative for environmental development. However, the intentions of Dutch companies are generally positive. Most Dutch companies make long term environmental investments in the area, like land preparations, sustainable irrigation systems, temperature control technology, greenhouses, and cooling facilities, either as a form of compensating for the intensive use of land, labour and water or as

a core business activity. This healthier environment contributes to the quality of the products produced. In addition, the increasing pressure from the international community on product quality makes a healthy environment a must. Still, this alone is not sufficient to ignore the environmental problems and critically look at the responsible business practices of these Dutch companies by questioning: 'how responsible are these responsible business practices?' In addition, in order for the presence of Dutch companies and their responsible business activities to have a positive impact on the environment, the enforcement of the Kenyan environmental laws needs to be improved substantially.

## **8.2 ECONOMIC DEVELOPMENT**

The interviewed Dutch companies do not only invest large amounts of money in new environmental technologies but also do so in other technologies as communication techniques. All the investments made in technologies and facilities are of great value to the agribusiness sector in Kenya, and generally mean companies intend to stay for a long period of time. This, then often leads to guaranteed jobs for local Kenyans and the possibility for them to learn specific sector skills. It is estimated that the flower sector in Kenya supports 90.000 local Kenyan employees directly and about 500.000 livelihoods indirectly. Due to large investments of the Dutch companies, and due to the large amounts of expertise and knowledge in the companies, knowledge is transferred onto Kenyans working in agribusiness and knowledge and technology spill overs take place in regions surrounding the companies. The increased knowledge and wealth in the region might enable Kenyans to take over or start their own business in the future. In addition, when a company is able to offer specialized labour, as is the case in Kenya, it becomes more interesting for foreign investors, making it an ideal area for FDI to take place, hence leading to economic development. In addition, due to the increased money flowing in the region as a result of employed Kenyans, several areas have witnessed an increase in local business activities, like butcheries, local fruit and vegetable stalls, bicycle repair shops, in the before rather inactive communities. Several companies, formally owned by Dutch entrepreneurs, are at the moment fully run and managed by local Kenyans. Unfortunately this is not the case for all interviewed Dutch companies. Several companies argue that the skills level, commitment and loyalty of Kenyans to a company are too low for them to have management positions within a company. As a result, employees are internationally sourced and often Dutch or other foreigners with a higher education are employed for the management positions in the company in Kenya.

For companies in several subsectors supplies are bought from local Kenyan companies or farmers. This means these companies and farmers can earn a living and possibly increase their livelihoods. However, in the flower sector inputs are generally internationally sourced, creating no value for local Kenyans. In addition, foreign suppliers, in particular suppliers of products for the flower industry have followed the relocation of flower companies from the Netherlands to Kenya and opened an office in Kenya as well. This has brought advanced and new technology to Kenya and has created more employment possibilities within agribusiness and particularly the flower sector. It however, has also meant that local companies have lost their market position as a result of the more advanced Dutch companies.

Due to international standardization and the Kenyan labour laws the conditions for employees are good. Especially the minimum wage set by Kenyan law is regarded to be sufficient for employees to live from. However, temporary labourers generally do not benefit from these labour standards (either international or national). In addition, as previously discussed the increased international quality demands and certification standards for exporting companies has led to companies taking production into their own hands to sustain European market access, resulting in smallholders losing their international market position and forced to find new markets for their products. This has certainly not benefitted local development and has rather created problems for the livelihoods of these smallholder farmers.

### 8.3 SOCIAL DEVELOPMENT

The positive social developments as a result of the responsible business practices of interviewed Dutch enterprises are closely linked to the employee benefits of responsible business practices, as previously discussed. The companies invest in their employees and generally also in the children of the employees, by providing schooling opportunities, paying for tuition, paying for wages of teachers, providing employees and their families with health care and offering housing or housing allowance. In addition, many companies support sporting events in surrounding communities, orphanages and secondary schools in the area. Hence, not only the employees of companies but entire communities benefit from the responsible business practices of companies, and thus face a better future. In addition, the employees save money, which could be invested in the future. These activities, however, often create quick wins, bringing immediate relief to those that need it most but do not change a business's operations and generally do not address the root causes of poverty, merely creating dependency instead of empowerment of the local Kenyans.

The rising population in the Naivasha region has not only had negative environmental effects, it has also had negative social effects on the area. When there are vacancies at the flower companies in Naivasha a large amount, sometimes up to 600, people turn up to apply for the position. Just a small amount of these 600 people can eventually get the job, forcing large amounts of Kenyans to look for other job opportunities, often in the same area. This has resulted in the development of large slums in the Naivasha region. In addition, crime levels have risen generally due to the large unemployment numbers of those living in the slums. Furthermore, the rising population has resulted in increased tension between local tribes. Before the floriculture sector started to grow in the Naivasha region, the land was home to several tribes, with a nomadic way of life. Due to the growing firms and the growing towns, these nomads are pushed off their lands and have to move, with their cattle, to less fertile lands. In addition, the access to the lake is limited because large farms block the passage, making it harder for these nomads to obtain sufficient water.

## 9 HOW RESPONSIBLE IS RESPONSIBLE BUSINESS?

The previous chapter presented the research findings, which suggest that a number of issues call for further discussion to determine the dilemmas and paradoxes associated with these responsible business practices. Throughout this chapter questions are asked about: how do the research results relate responsible business literature and to previous research? How responsible are these responsible practices actually? Can the research results deliver insights into other regions? On which matters should further research be conducted to further explore the issue?

First, a link will be made to the literature presented in chapter 2 and previous research on responsible business in Kenya. Second, it will be discussed and questioned how responsible the responsible business practices of the interviewed Dutch enterprises in agribusiness in Kenya actually are. Finally, recommendations will be made for further research possibilities in the field of responsible business practices.

### 9.1 LITERATURE AND PREVIOUS RESEARCH

Carroll (1991) argued that companies put first and foremost emphasis on economic types of responsibility, thereafter legal, ethical and philanthropic responsibilities. Research reveals that the responsible business practices of Dutch enterprises in agribusiness in Kenya more or less take on the form of the CSR pyramid as predicted by Carroll. Legal responsibilities were most emphasized, followed by economic, ethical and lastly philanthropic responsibilities. Visser (2006) however argued that in the context of Africa, philanthropic responsibility would take on the second highest priority, after economic, and followed by legal and ethical responsibilities. The results of this research thus contradict the CSR pyramid that Visser argued to be most applicable for the African context. Being profitable is very important for Dutch enterprises in Kenya, especially in agribusiness as risks are high. However, it is debatable as to whether this business function should appear on the responsible business agenda at all. As it is a core activity of enterprises, needed to survive. In addition, a focus area that is missing in the pyramid is environment. The environment is agreed to be very important in responsible business and one of the foremost focus areas of Dutch enterprises operational in Kenya. Although these research results more or less take on the form of Carrolls pyramid, I believe the four dimension of responsibility are very context specific and creating a general or unified pyramid for the developing world or for the developed world would not be possible. According to Carroll (1991), the pyramid of CSR involves the fulfilment of a company's economic, legal, ethical and philanthropic responsibilities. This means the company should strive to make a profit, obey the law, be ethical, and be a good corporate citizen, to be totally responsible. This research shows however that reality and practice are somewhat different. Dutch enterprises in Kenya tend to prioritize the responsible issues and the responsible practices they employ. Is it thus still relevant that enterprises are expected to focus on all stakeholder groups and all issues in their responsible business practices at once?

Research done in the past (Muthuri & Gilbert, 2011; Imani Development, 2009) found that responsible business practices in Kenya are generally associated with philanthropy. Community activities were given highest priority while little priority was given to workplace, marketplace and environmental activities. This research however finds contradicting results. Although companies are involved in community activities, these activities receive least priority, and workplace (employees), marketplace (customers) and environment are actually of foremost importance. An explanation for the differences found between this research and previous research could be ascribed to the specific focus of this research on Dutch enterprises and on the agribusiness sector. In past research focus was placed on enterprises of different ownership and in different sectors. However, what is in line with research of Muthuri and Gilbert (2011) is that responsible business is mentioned as part of compliance to law, to codes of conduct and to certification label standards.

The responsible business practices of the interviewed Dutch enterprises are mainly stakeholder driven, as customers, employees and certification demands have a large influence on how responsible business is practiced, and performance-driven, motivated by profit-maximisation, growth, market access and competitiveness. Although value-driven responsible business, as part of the company's culture and the right thing to do, was mentioned by some enterprises, it was less argued as a driver of responsible business practices. Several drivers of responsible business identified by Visser (2008) were clearly present in the case of Dutch companies in Kenya. These were mainly the internal drivers, market access, political reform, cultural tradition and socio-economic priorities, and were mainly drivers preventing responsible behaviour. On the external level the drivers international standardization, supply chain and stakeholder activism played a large role. These external drivers were, in contrast to the internal drivers, generally drivers encouraging responsible behaviour.

While the main principle of stakeholder theory is that all stakeholders matter and that enterprises should balance the interests of all stakeholders, this balancing of interests has proven difficult to accomplish in practice. Instead of acting on all stakeholder demands and interests, enterprises are in practice often constrained by limited financial and human resources, and thus tend to prioritize their stakeholders. The research results confirm this notion as several stakeholder groups are prioritized above others. Overall, employees, customers and the environment are regarded to be most important for the survival of enterprises and are prioritized in the responsible business practices. In addition, these stakeholders are argued to have most influence on the business practices and responsible business activities of Dutch enterprises. When linking this to the stakeholder attributes advanced by Mitchell et al. (1997), customers can be argued to possess the attributes power, as they can get a company to do something that it would not have done otherwise, for example demands for certification or standards, and urgency, their claims generally calls for immediate attention because otherwise companies could lose their market position. Employees mainly possess the attribute legitimacy, the actions of employees are generally assumed to be desirable and appropriate. In case of labour intensive companies employees also possess the attribute urgency as they are of essential importance for the business operations. Although the environment is actually a silent stakeholder it can be argued that the environment possesses the attribute urgency, as the environmental situation and environmental changes generally call for immediate attention, especially in the case of the flower companies in the Naivasha region who already receive large amounts of negative press on the environmental issues in the area.

### **9.3 HOW RESPONSIBLE IS RESPONSIBLE BUSINESS?**

The research results reveal that, although the responsible business practices of Dutch companies are well established and highly developed, this is mainly as a result of pressures from customers, international standardization and from the requirements set by Kenyan law. Hence, the responsible business practices are no more than compliance to international standardization and Kenyan labour and environmental laws. Although some companies clearly stated to practice responsible business out of personal conviction the generally tendency showed otherwise. For this reason the question arises 'how responsible are the responsible business practices of these Dutch companies actually'.

For large companies, mainly in the flower industry which use large amount of resources (land, labour, water) for production, responsible business practices can be argued to be no more than a form of compensation for the strain put on these resources. In addition, the products produced are all exported to highly developed countries. Therefore it could be questioned whether using scarce Kenyan land and water for the production of flowers and vegetables and subsequently exporting the products, is responsible. Furthermore, as flowers are a luxury product, produced in a country that imports food because it cannot produce enough itself due to scarce land and water, it is debatable whether using land and water for these luxury products is ethically right and thus responsible. One thing is sure, in

this case responsible business cannot be argued to be responsible business 2.0 as Visser intended it to be.

Furthermore, results showed that pressures of international standardization have led to the exclusion of smallholder farmers as suppliers of export companies due to tractability issues. Smallholders have been pushed out of the international market and forced on to the domestic market, posing great obstructions for local development. Responsible business in this case can be argued to not be very responsible. Is it therefore correct that responsible business is often defined as the overall contribution of a business to sustainable development? The previous chapter has shown that in the case of responsible business practices of Dutch companies in agribusiness in Kenya the contribution is not always positive and does not always lead to sustainable development on the long term. The developmental impact of responsible business practices on the economic, environmental and social level reveals both negative and positive effects. Some of the responsible practices can be argued to be long term solutions, like large investments in environmental solutions and employee trainings, leading to sustainable development. Other practices, however are merely quick fix solutions and cannot be regarded as sustainable at all. These results therefore lead to the following questions: ‘when negative effects of responsible business practices outweigh the positive effects can responsible business actually be called responsible or is it merely a disguised form of traditional business?’ and ‘shouldn’t responsible business practices be about being good rather than being less bad?’

Responsible business has many levels of implementation and it is necessary to keep in mind that countries and companies at the beginning of the responsible business ladder cannot be expected to have advanced responsible business practices that tackle all economic, social and environmental issues simultaneously. Responsibility of the Kenyan private sector is rather new and many companies have started practicing responsible business as a means of compliance to international standardization and national laws. It would therefore be interesting to examine whether companies in Kenya will in the future move to more advanced practices of responsible business or responsible business 2.0, practiced out of other motivations than merely legal compliance.

#### **9.4 RESEARCH RECOMMENDATIONS**

This research only focussed on Dutch enterprises in agribusiness in Kenya, therefore comparison between different company nationalities and different sectors was not possible. For further research it would be interesting to take enterprises with different owner nationalities (Kenyan Dutch, Danish, German, English, Indian, and Israeli) and within different sectors in Kenya into the research population. This way a comparison between different sectors and different enterprise nationalities is possible, creating a more complete image of the extent to which responsible business is practiced in Kenya.

Furthermore, the study does not take temporal effects and situations into account as it was only conducted once. As responsible business is still emerging in Kenya, the field could benefit from longitudinal studies to determine if the general responsible business agenda and the individual responsible business agendas of the enterprises in Kenya are prone to change over time.

Finally, more research is needed to find out more specifically what is done by Dutch enterprises regarding responsible business targeting the whole value chain. As the value chain and the stakeholder within it are increasing in importance in responsible business it would be interesting to research in more detail how the Dutch companies in Kenya respond to this increases importance. Are they more aware of the responsible business practices of their suppliers? And do they work together with others along the value chain to make the whole value chain more responsible and sustainable? Furthermore the negative influence certification labels have on the involvement of small-holders farmer in export companies needs further and more longitudinal research. Only then can suitable changes can be made in the responsible business field that benefit all parties involved.

## CONCLUSION

This research focused on the manifestation of responsible business practices of Dutch enterprises operational in agribusiness in Kenya. The main objectives were to determine how responsible business is practiced, what drives responsible business, how stakeholders encourage and prevent responsible behaviour, and what the impact is of responsible business in the value chain of a certain product. The identification of these aspects of responsible business are useful in improving the climate for private sector development and for the improvement of responsible business practices of Dutch enterprises in agribusiness in Kenya. The main research question of this research is:

*'How and why are Dutch enterprises in agribusiness in Kenya engaged in responsible business, and how does this contribute to sustainable local development?'*

The responsible business practices of Dutch enterprises operational in Kenyan agribusiness manifest in a variety of ways. The interviewed enterprises display different understandings and levels of commitment to responsible business as demonstrated by the issues they prioritize, the stakeholders they prioritize and the range of responsible business activities they employ. In addition, the responsible business practices of these enterprises are often not viewed and labelled as responsible business or corporate social responsibility but 'just' as part of their daily business activities.

Research results reveal that responsible business practices of Dutch enterprises are well established and primary focus is put on activities regarding employees, like the provision of healthy and safe working conditions, good salaries, health care on site and growth opportunities within the enterprise, and customers, mainly on maintaining a good business relationship. Customers (market-access) and employees are in addition the main stakeholder groups encouraging and driving responsible behaviour, as they generally have a powerful market or company position. On the other hand the Kenyan government, especially its intense corruptive practices, and the socio-economic conditions in Kenya, leading to stealing and scamming, are the main bottlenecks of doing business in Kenya and are argued to prevent responsible behaviour. This reinforces the notion that responsible business is greatly influenced by the economic, political, social, and cultural conditions of a country.

The similarities and differences that occur in the responsible business practices of the interviewed Dutch enterprises appear to be related to their market focus and the size of the enterprises. Large enterprises and export enterprises have higher overall responsibility levels than SMEs and domestic enterprises. In addition, export companies for which certification is a market demand showed significantly higher levels of responsibility. Entrepreneurial characteristics on the other hand, except for an entrepreneur's age, do not have any influence on the responsible business practices of the interviewed enterprises. Results indicate that the enterprises are primarily engaged in responsible business activities because this is required or a precondition by either international standardization and international market access, or by Kenyan labour and environmental laws, and as an attempt of the enterprises to keep up with competitors, to maintain legitimacy, sustain their market position and ensure survival. The increased international pressure on product quality and the lack of sufficient amounts and quality of Kenyan supplies have resulted in Dutch companies taking more phases of the value chain into their own hands, leading to highly integrated value chains. The lack of knowledge of local smallholder farmers, hence the poor quality and unreliable supply of products has, amongst others, triggered this development. Providing inputs, packaging, processing and often transport themselves means product monitoring and product quality is improved and compliance with European standards or simply increased product price is ensured. Results furthermore demonstrate that Dutch enterprises in Kenyan agribusiness place little emphasis on strategically targeting the value chain in their responsible business practices. The responsibility level of suppliers is not considered when doing business.

Particularly in the horticulture sector the ever increasing international demands have led to the exclusion of smallholder farmers as suppliers of export companies due to tractability issues. Smallholders have been pushed out of the international market and forced to find new markets for their products, posing great obstructions for their livelihoods and local development. For the floriculture sector, however, certification is still mainly voluntary as the auction in Aalsmeer, the Netherlands, does not demand any type of certification or labour and environmental codes, yet. This allows Dutch flower enterprises to promote their voluntary adoption of certification labels as a competitive advantage.

As international standards play a significant positive role on the way responsible business is practiced, adherence to international standards also encourages the homogenization of responsible business practices across Kenya. For instance, as a significant proportion of the enterprises comply with international environmental standards, leading to responsible business agendas of these companies being shaped by these standards. Furthermore, the responsible business practices of these companies are likely to be more focused on workplace, marketplace and environmental issues in accordance with the requirements of the standards, than community issues which are generally not required in these standards.

Furthermore, the developmental impact of responsible business practices reveals both negative and positive effects. On the environmental level the negative outcomes seem to outweigh the positive as companies put a large strain on natural resources. The economic effects, on the other hand, are largely positive and lead to specialized sectors and skilled employees, attracting more FDI and improving the livelihoods of local Kenyans due to employment. On the social level, responsible behaviour is mostly related to quick fix solutions having little long-term developmental impact. Generally speaking however, responsible business practices seem to have a positive developmental impact as the quality of products improves, the environment is better taken care of and better working conditions and salaries are provided for employees.

The research reveals that the uptake and focus areas of responsible business practices is somewhat inconsistent, and varies per company size, sector, market focus and certification demands. What is consistent however is that it is largely driven by the need to conform to Kenyan laws and requirements of the international market, in the form of codes of conduct and certification labels. A large part of the responsible business practices are still short term solutions instead of long term sustainable solutions implemented as a core business activity. Responsible business practises may have been proclaimed as one of the best ways to alleviate poverty and create development, however research reveals that responsible business practices, although in essence positive and implemented to improve situations, often also has negative effects on mainly local players in value chains and local sustainable development. Particularly compliance with ever increasing international quality demands and certification labels, without affecting the competitive advantage of the industry, poses a serious challenge for the entire value chain. These negative effects need to be taken serious, particularly as they affect those that were targeted to be helped in the first place. Hence, if these trends proceed, the potential benefits of responsible business for development might not be achieved. In addition, if the negative effects of responsible business practices outweigh the positive effects then can responsible business actually be called responsible or is it merely a disguised form of traditional business? For this reason it is necessary to find how to practice responsible business in such a way that all actors, international and domestic, large, medium and small are involved, add to and gain from responsible business, particularly within international value chains.

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## **ANNEXES**

ANNEX 1: List of interviewed companies and organizations

ANNEX 2: Survey

ANNEX 3: Topic list enterprise interviews

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ANNEX 5: List of certification labels

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ANNEX 8: SPSS Outcomes

## ANNEX 1: List of interviewed companies and organizations

### LIST OF INTERVIEWED COMPANIES

COMPANIES	SECTOR
Upande	ICT-Software
Flametree	ICT-Software
Verdict East Africa ltd	ICT-Software
East African Packaging Industries Ltd	Packaging
Geerlofs Kenya Ltd	Cooling/refrigeration
Celtic Cooling	Cooling/refrigeration
Bosman	Irrigation systems
PEP Intermedius Ltd	Financial/mobile technology
Ubbink	Energy
Lake Turkana Ltd	Energy
DWL Water	Water
Syngenta flowers	Horticulture – flowers/plants
Lathyflora Kenya	Horticulture – flowers/plants
Florensis	Horticulture – flowers/plants
Bilashaka Flowers (Zuurbier & co)	Horticulture – flowers/plants
Sian Agriflora Ltd	Horticulture – flowers/plants
Color Vision Roses Ltd. (terra nigra)	Horticulture – flowers/plants
Interplant Roses	Horticulture – flowers/plants
Africalla	Horticulture – flowers/plants
van den Berg RoseS Kenya	Horticulture – flowers/plants
Schreurs	Horticulture – flowers/plants
De ruiter	Horticulture – flowers/plants
Maridadi (kneppers roses)	Horticulture – flowers/plants
Karuturi (sher) Kenya	Horticulture – flowers/plants
Veryflora	Horticulture – flowers/plants
Terrasol	Horticulture – flowers/plants
Hilverda Kenya	Horticulture – flowers/plants
Luxor tuinbouwadvies ltd	Horticulture – flowers/plants
WAC international	Horticulture – flowers/plants
Fresh Fries	Horticulture – vegetables/fruits
Indu Farm (EPZ) Ltd	Horticulture – vegetables/fruits
FGL Holding ltd	Horticulture – vegetables/fruits
Equator Kenya ltd	Horticulture – vegetables/fruits
Baraka farm	Dairy/livestock, Horticulture – vegetables/fruits
Fleckvieh Genetics East Africa Ltd	Dairy/livestock
Happy Cow Dairies Ltd	Dairy/livestock
LakiLaki	Dairy/livestock

### LIST OF INTERVIEWED STAKEHOLDERS

Lake Naivasha Growers Group  
 Kenya Flower Council  
 Ufadhili  
 UN Global Compact Network Kenya  
 NEMA  
 Fresh Produce Export Association Kenya (FPEAK)  
 Flowerwatch  
 Kenya Bureau of Standards (KEBS)  
 HR manager Africalla

## ANNEX 2: Survey

Survey No.....

### Survey on European entrepreneurs in Africa

**Name enterprise:** .....

**Function respondent within enterprise:** Owner / Manager / Other: .....

The aim of this survey, which is part of an academic research project carried out for the University of Utrecht, is to yield a greater insight into the characteristics of European entrepreneurs and their enterprises active in the agro sector in Africa. This survey will focus on the ways in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement.

This survey will be conducted in Ghana, Ethiopia, Kenya, Zambia and South-Africa, in order to have a better understanding about this topic.

A key part of the research will be your input and the survey should take 60 to 90 minutes to complete. You will be asked 10 questions which should provide us with some basic information about the current state of affairs within your enterprise. We guarantee that the results of the survey will be confidential and processed anonymously.

Thank you for your participation! Your help is greatly appreciated.

*In order to have a clear overview of the characteristics of the enterprise we kindly ask you to fill in the following general questions. Tick the boxes that are appropriate to you, or elaborate on the open questions*

#### 1. Characteristics of enterprise (part I)

A. Products & Services	B. Activities	C. Sector
<p><b>What are the primary products or services of the enterprise?</b></p> <p>Please specify:</p>	<p><b>In what phases of the value chain is the enterprise active?</b></p> <p><input type="checkbox"/> Machinery/Engineering</p> <p><input type="checkbox"/> Fertilizers/pesticides</p> <p><input type="checkbox"/> Seeds</p> <p><input type="checkbox"/> Services/Consultancy</p> <p><input type="checkbox"/> Research and Development</p> <p><input type="checkbox"/> Farming</p> <p><input type="checkbox"/> Storage</p> <p><input type="checkbox"/> Processing and Manufacturing</p> <p><input type="checkbox"/> Packaging</p> <p><input type="checkbox"/> Retail</p> <p><input type="checkbox"/> Transport</p> <p><input type="checkbox"/> Trading and Exporting</p> <p><input type="checkbox"/> Other:.....</p>	<p><b>In which segment within the agro-sector is the enterprise active?</b></p> <p><input type="checkbox"/> Fisheries</p> <p><input type="checkbox"/> Forestry</p> <p><input type="checkbox"/> Food crops (fruits, vegetables, grains, nuts)</p> <p><input type="checkbox"/> Non Foods</p> <p><input type="checkbox"/> Floriculture</p> <p><input type="checkbox"/> Biofuels</p> <p><input type="checkbox"/> Dairy</p> <p><input type="checkbox"/> Meat</p> <p><input type="checkbox"/> Other.....</p>

**2. Characteristics of enterprise (part II)**

A. Structure	B. Location	C. Ownership														
<p><b>How would you describe the enterprise?</b></p> <p>0 Sole standing enterprise                      0 Parent company                      0 Local branch of a foreign parent company                      0 Subsidiary of multinational                      0 Other:.....</p> <p><b>What is the legal structure of the enterprise?</b></p> <p>0 Limited company                      0 Trust                      0 Association                      0 Joint Venture                      0 Franchise                      0 Informal                      0 Other.....</p>	<p><b>Does the enterprise have multiple locations?</b></p> <p>0 Yes                      0 No</p> <p><b>For each of these localities, please indicate where (village/city /country) and since when:</b></p> <p>1.                      2.                      3.                      4.                      5.</p>	<p><b>Who are the owners of the enterprise and what nationality do they have?</b></p> <p>Name      Nationality      Country of residence</p> <p>1.                      2.                      3.                      4.                      5.</p> <p><b>What share of the enterprise do each of the owners have?</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 40%; text-align: center;">Percentage (%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Owner</td> <td></td> </tr> <tr> <td>1.</td> <td></td> </tr> <tr> <td>2.</td> <td></td> </tr> <tr> <td>3.</td> <td></td> </tr> <tr> <td>4.</td> <td></td> </tr> <tr> <td>5.</td> <td></td> </tr> </tbody> </table>		Percentage (%)	Owner		1.		2.		3.		4.		5.	
	Percentage (%)															
Owner																
1.																
2.																
3.																
4.																
5.																

**3. Characteristics of the owner/manager (part I)**

CHARACTERISTICS OF THE OWNER (also to be asked if talking to manager)			
A. Nationality	B. Residence	C. Age & Gender	D. Education
<p><b>What nationalities do you have?</b></p> <p>1. ....                      2. ....                      3. ....</p>	<p><b>Since when do you live in this country?</b></p> <p><b>How many weeks do you spend in Europe each year?</b></p>	<p><b>In what year were you born?</b></p> <p><b>What is your sex?</b>                      0 Male    0 Female</p>	<p><b>What kind of education did you enjoy?</b></p> <p><b>What do you consider to be your professional specialization?</b></p>

**3. Characteristics of the owner/manager (part II)**

A. History of residence	B. Activities												
<p><b>In what countries have you been living in your life and how many years did you spend in each of them?</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Country:</th> <th style="width: 50%;">Period: (amount of years)</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td></td> </tr> <tr> <td>2.</td> <td></td> </tr> <tr> <td>3.</td> <td></td> </tr> <tr> <td>4.</td> <td></td> </tr> <tr> <td>5.</td> <td></td> </tr> </tbody> </table>	Country:	Period: (amount of years)	1.		2.		3.		4.		5.		<p><b>What was your main activity in each of those countries?</b></p> <p>Activities</p> <p>1.                      2.                      3.                      4.                      5.</p>
Country:	Period: (amount of years)												
1.													
2.													
3.													
4.													
5.													

**4. Characteristics of Markets - Input and output relations**

A. Consumers and Clients	B. Suppliers
<p><b>Who are the main clients for which the enterprise produces or delivers its products/services?</b></p> <p>Name                      Location</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p><b>What share of the product/service is going to which market?</b></p> <p style="text-align: right;">Percentage</p> <p>Local markets                      .....%</p> <p>National markets                      .....%</p> <p>African markets                      .....%</p> <p>European markets                      .....%</p> <p>Other International markets                      .....%</p>	<p><b>Who are your main suppliers? What is their name, size, location and what do they supply?</b></p> <p>Size      Name supplier      Item supplied      Location</p> <p>1 2 3 4      .....      .....      .....</p> <p>1 = <i>Micro Enterprise</i></p> <p>2 = <i>Small to Medium Enterprise</i></p> <p>3 = <i>Large Enterprise</i></p> <p>4 = <i>Multinational</i></p>

**5. Use of local resources**

A. Labour	B. Land	C. Water & Energy
<p><b>How many employees does the enterprise have in total?</b></p> <p><b>What share of the employees is temporary and permanent?</b></p> <p>Permanent: ..... %</p> <p>Temporary: ..... %</p> <p><b>What share of the employees is foreign?</b></p> <p>Local: ..... %</p> <p>Foreign: ..... %</p> <p><b>What percentage of the employees is male and female?</b></p> <p>M: _____</p> <p>F: _____</p>	<p><b>How many hectares of land does the enterprise have in total?</b></p> <p>Please specify:</p> <p><b>Is the land inherited, given, bought, leased or rented?</b></p> <p>0 Inherited</p> <p>0 Given</p> <p>0 Bought</p> <p>0 Leased      Years: _____</p> <p>0 Rented      Years: _____</p> <p><b>From who is the land inherited/given/bought/leased/inherited/ rented?</b></p> <p>0 Government</p> <p>0 Private party</p> <p>0 Other:.....</p>	<p><b>How many liters of water does the enterprise use each year?</b></p> <p><b>From which water source is the water mainly coming?</b></p> <p>0 Rainfall</p> <p>0 Rain harvesting system</p> <p>0 Surface water (<i>canals, rivers and streams, ponds &amp; lakes</i>)</p> <p>0 Ground water (<i>boreholes, springs</i>)</p> <p>0 Tap water</p> <p>0 Other.....</p>

**6. Enterprise development**

A. Start	B. Past development	C. Future development
<p><b>What year was the enterprise founded?</b></p> <p>Year: _____</p> <p><b>What year did the enterprise start its operations in this country?</b></p> <p>Year: _____</p> <p><b>Where was this first operation located?</b></p> <p>Location: _____</p>	<p><b>Has the enterprise been expanding (+), constant (+/-) or declining (-) during the <u>past 5 years</u>?</b></p> <p>Turnover                      0 + 0 +/- 0 -</p> <p>No. of employees                      0 + 0 +/- 0 -</p> <p>No. of locations                      0 + 0 +/- 0 -</p> <p>No. of clients                      0 + 0 +/- 0 -</p> <p>Labour costs                      0 + 0 +/- 0 -</p> <p>New product(s)                      0 + 0 +/- 0 -</p> <p><b>Were there any major changes in the business practice over the past 5 years?</b></p>	<p><b>Are you expecting the enterprise to expand (+), stay constant (+/-) or decrease (-) during the <u>next 5 years</u>?</b></p> <p>Turnover                      0 + 0 +/- 0 -</p> <p>No. of employees                      0 + 0 +/- 0 -</p> <p>No. of locations                      0 + 0 +/- 0 -</p> <p>No. of clients                      0 + 0 +/- 0 -</p> <p>Labour costs                      0 + 0 +/- 0 -</p> <p>New product(s)                      0 + 0 +/- 0 -</p> <p><b>Do you expect any major changes in the business practice in the coming 5 years?</b></p>

**7. Financial situation**

A. Public investment	B. Private investment	C. Turnover
<p><b>From which <u>public</u> channels does the enterprise receive external funding?</b></p> <p>0 Not Applicable 0 Subsidy home country 0 Subsidy host country 0 Grants 0 None</p> <p><b>And what is the name of each subsidy/grant?</b> Please specify:</p>	<p><b>From which <u>private</u> channels does the enterprise receive external funding?</b></p> <p>0 Local bank loans 0 Bank loan from country of origin 0 International bank loans 0 Local bank subsidized loans 0 Subsidized loan from country of origin 0 International bank subsidized loans 0 Social private equity investments 0 DFI (Development Fund Investor) 0 None</p> <p><b>And what is the name of the private funding?</b> Please specify:</p>	<p><b>C. What has been the average annual turnover of the enterprise in the last year?</b></p> <p>0 \$ Less than 10.000 0 \$ 10.000 – 50.000 0 \$ 50.000 – 100.000 0 \$ 100.000 – 500.000 0 \$ 500.000 – 1.000.000 0 \$ 1.000.000 - 5.000.000 0 More than \$ 5.000.000</p>

**8. Responsible business activities****EMPLOYEES**

**How is the enterprise involved in the well-being of its employees?**

Please specify:

**Please indicate to what extent you agree with the following statements with reference to the activities of the enterprise:**

*1 = not at all    2 = not really    3 = undecided    4 = Somewhat    5 = Very much*

	1	2	3	4	5
The enterprise is paying its employees more than similar local companies					
The enterprise encourages employee participation in community projects					
The enterprise has health and safety regulations in place in the workplace					
The enterprise provides clean, healthy and safe working conditions.					
There is a process to monitor compliance with relevant employment laws and regulations.					
There is a process to ensure that no forms of harassment, bullying or discrimination are tolerated.					
The enterprise employs locals where possible.					
The enterprise engages in open communication with employees (complaints system, employee rights).					
The enterprise invests in employee trainings/education					
The enterprise promotes gender equality in the workforce					

**COMMUNITY**

**In what way is the enterprise involved with surrounding communities?**

Please specify:

	1	2	3	4	5
The enterprise improves social infrastructure and living conditions in surrounding communities.					
The enterprise is involved in building schools, health centres, and electricity connections for the local community.					
The enterprise foster reciprocal relationships with the local community, in which it operates.					

The environmental and social impacts of the enterprise on surrounding communities are mitigated.					
There is a process in place to deal with enquiries and complaints from members of the local or national community.					
Where activities have a potentially significant impact on the community, the enterprise has a process to minimize the negative impacts.					
The enterprise caters for the community's demands and needs.					
The enterprise engages in meaningful dialogue with the community where there are concerns about its products, services or operations.					
There is a programme of support for community projects and activities that is appropriate to the enterprise and the needs of the community.					
The enterprise is engaging in initiatives contributing to local development because it has a positive influence on the overall profitability of the business.					

### SUPPLIERS

#### How does the enterprise manage its relations with its suppliers?

Please specify:

	1	2	3	4	5
The enterprise acknowledges and responds to supplier and contractor complaints and comments.					
There is a process to ensure that all suppliers and contractors are routinely paid in accordance with agreed terms.					
The enterprise is involved in knowledge transfer to its suppliers.					
Products and/or resources are bought from local (domestic) suppliers					
The enterprise supports its suppliers in improving their environmental/social and economic performance					
The enterprise maintains long-term purchasing relationship with its suppliers					
The enterprise buys its products and/or resources from the same suppliers (contracts with suppliers)					
The enterprise has standard procedures (complaint books, feedback mechanism) that it follows to determine the needs of its stakeholders					
The enterprise takes into account the demands and needs of its suppliers when developing new products and/or services					
The enterprise invests in local small-scale suppliers to improve the volume and quality of their production/services					

### ENVIRONMENT

#### How does the enterprise limit its impact on the environment?

Please specify:

	1	2	3	4	5
The enterprise identifies and mitigates impacts of its operations and products on the local environment.					
The enterprise strives for the careful use of land					
The enterprise is increasing its water efficiency					
The enterprise is increasing its energy efficiency					
The enterprise is taking action to reduce its greenhouse emissions					
There is a process to monitor compliance with environmental regulations and industry-specific codes of practice.					
The enterprise takes into account the potential environmental impacts when developing new products and services					
Where appropriate, there is a process to encourage environmentally responsible use and disposal of products within the value chain.					

There is a process to encourage employees and contractors working on the enterprises behalf to participate actively in environmental protection.					
The enterprise has a functioning waste management and pollution prevention programme in place					
<b>CUSTOMERS</b>					
<b>How does the enterprise respond to the wishes of customers?</b> Please specify:					
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The enterprise has a formal procedure in place to respond to client demands and/or complaints					
The enterprise encourages fair competition and prevents anti-competitive behaviour.					
Terms of business with clients are clear and not to be deviated from					
The enterprise regularly seeks and uses client feedback.					
The enterprise takes into account the demands of clients when developing new products and/or services					
The enterprise avoids engagement in price fixing					
The enterprise provides full and accurate information about its products and services to all the clients					
The enterprise takes into account the demands of the poor as customers when developing new products and/or services.					
The specification of products and services is clear, including, where appropriate, quality, total cost, delivery charges and timescales for delivery.					
The enterprise has a procedure in place share performance standards with clients.					
<b>INVESTORS/SHAREHOLDRES</b>					
<b>How does the enterprise take into account the wishes of shareholders and investors?</b> Please specify:					
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The principles and practices of corporate governance are clearly communicated to shareholders and variances from relevant codes are explained.					
There is a process to review corporate governance to assess compliance with relevant local codes.					
There is a regular report that provides shareholders with a clear understanding of the enterprises finances and operations.					
The enterprise provides its investors with clear and comprehensive information about corporate governance performance.					
The enterprise has a process to manage internal and external conflicts of interests.					
The enterprise strives for a competitive return on investment.					
The enterprise provides its investors with clear and comprehensive information about economic performance.					
The enterprise considers environmental and social factors in its long and medium term strategy					
The enterprise provides its investors with clear and comprehensive information about social performance.					
The enterprise provides its investors with clear and comprehensive information about environmental performance.					

**9. Responsible business**

A. Drivers	B. Responsibility	C. Future
<p><b>What do you regard as the main reasons for the enterprise to make its business responsible?</b>                      0 Profit                      0 Growth                      0 Acceptance in community                      0 Compliance with law                      0 Other (Please specify):</p> <p><b>Are there any national agreements, frameworks, certification labels (either demanded or voluntary) that are implemented by the enterprise?</b>                      0 No                      0 Yes, please specify:</p> <p><b>Are there any international agreements, frameworks, certification labels (either demanded or voluntary) that are implemented by the enterprise?</b>                      0 No                      0 Yes, please specify:</p>	<p><b>How responsible do you consider the enterprise to be, on a scale of 1 to 10?</b>                      1 2 3 4 5 6 7 8 9 10</p> <p><b>Can you explain why you gave this grade?</b></p> <p><b>Which persons, groups or organizations are most likely to convince the enterprise to become more responsible?</b></p> <p><b>Which persons, groups or organizations are most likely to prevent the enterprise from becoming more responsible?</b></p>	<p><b>What opportunities do you see for the enterprise to become more responsible?</b></p> <p><b>What bottlenecks does the enterprise experience, that prevent it from becoming more responsible?</b></p>

**10. Stakeholders**

**Which stakeholders listed below are most influential in determining how responsible a business is?**

*Please indicate to what degree you think that the following stakeholders are either strong or weak influencers for responsible business 1=Extremely 2=Quite 3=Slightly 4=Neither 5=Slightly 6=Quite 7=Extremely*

	Negative					Positive	
	1	2	3	4	5	6	7
Investors/financiers							
Government							
Local Groups and Organizations							
Clients and Customers							
Community							
Employees							
Suppliers							
Environmental changes							

**Which stakeholders are encouraging or preventing the enterprise to become more responsible?**

*Please indicate to what degree you think that the following stakeholders are either preventing or encouraging responsible business 1=Extremely 2=Quite 3=Slightly 4=Neither 5=Slightly 6=Quite 7=Extremely*

	Preventing					Encouraging	
	1	2	3	4	5	6	7
Investors/financiers							
Government							
Local Groups and Organizations							
Clients and Customers							
Community							
Employees							
Suppliers							
Environmental changes							

**Thank you for your cooperation!**

If you are willing to participate further in the research please fill in your email address here:

If you have any further comments regarding the research please write them here:

### **ANNEX 3: Topic list enterprise interviews**

#### **INTRODUCTION**

- Information about the research and the survey

#### **CHARACTERISTICS ENTERPRISE**

- Sector
- Land
- Employees
- Suppliers
- Customers
- Loans
- Turnover
- Risk, challenges, and disadvantages of doing business in Kenya
- Opportunities of doing business in Kenya
- Taxes
  - *Tax reductions for exporting products*
  - *Tax reductions for philanthropic activities (building school, hospitals etc.).*
- Cooperation with other enterprises, organizations, government etc.

#### **CHARACTERISTICS ENTREPRENEUR**

- Age
- Education
- Live in Kenya/Length of stay in Kenya
- Lived/worked in other countries (Africa, Asia, South America).

#### **RESPONSIBLE BUSINESS**

- Likert scale questions
- Stakeholder activities
- Opportunities/bottlenecks
- Regulations/certifications
  - *National and international standards, certification labels.*
  - *Importance of international/national standards and certification labels.*
  - *Compliance to quality standards, certification labels (EU).*
  - *National permits (environmental and/or water) that you need to acquire?*
- Value chain
  - *Responsible business in the value chain*
  - *Suppliers*
  - *Clients*
- Stakeholder influence
  - *preventing or encouraging responsible behaviour?*
  - *On business activities*
  - *On responsible business practices*
  - *Why some stakeholders more influence than others?*

## **ANNEX 4: Topic list Stakeholder interviews**

### **INTRODUCTION**

- Information about the research and the questions asked

### **CHARACTERISTICS/ACTIVITIES STAKEHOLDER**

- Activities
- Link to agribusiness
- Link with responsible business

### **RESPONSIBLE BUSINESS**

- Opinion about the field of responsible business
  - *In Kenya*
  - *In agribusiness (or more specific sector)*
  - *Between different companies (nationality, size, export/domestic, certification)*
  - *RB focus areas/activities*
  - *RB: what is important, what not*
- Activities regarding responsible business
- Need for improvement? Where? How?

### **STAKEHOLDER INFLUENCE**

- Which stakeholders prevent/encourage responsible behaviour (why?, how?)
- Do you have and influence on responsible behaviour? (why? how?)
- Need for more focus of companies on stakeholders? (which ones, how)

## ANNEX 5 List of certification labels

CERTIFICATION LABELS	YEAR	BACKGROUND	MAIN FOCUS AREAS	SECTOR
Fair Flowers Fair Plants (FFP)	2006	Fair Flowers Fair Plants (FFP) stimulates the production and trade of flowers and plants cultivated in a sustainable manner. The standard deals in particular with growers, traders, retailers and consumers in the flower industry. Emphasis is placed on the environment, on issues as crop protection, fertilizers, energy and water used for production processes throughout the company, and of the separation of waste water. Social issues as freedom of association, no employee discrimination, minimum wages, working hours, healthy and safe working conditions, no child labour and no forced labour are also emphasised in the standard.	Environment, general	Floriculture
Fairtrade Labelling Organization (FLO)	1997	The Fair Trade label of the Fair Trade Labeling Organization (FLO) was established in 1997. FLO is the umbrella organisation for a worldwide network of fair trade organisations involved in supporting producers in developing countries and campaigning for changes in the rules and practices of conventional international trade. The label assures farmers a fixed minimum price for products in order to cover the average cost of sustainable production (social and environmental). The standard is not product or sector specific and particularly deals with producers, traders and retailers in the value chain of a product. FLO standards are applied to ensure that contracts, prices, and other trading practices continue to reflect the goals of fair trade along the entire product value chain. FLO sets standards for producers and traders all around the world. It then inspects and certifies producers against the standards, and audits the flow of goods between producers and importers. Producer groups (usually co-operatives or associations of small-holder farmers) that meet these standards are then certified as Fair trade producers. FLO has also developed general standards for small producer organizations, hired labour, and contract production that are applied to all producers and products and additional product specific standards for certain crops.	Fair trade	All sectors
ISO 14000	2004	ISO 14000 addresses various types of environmental management. It defines an environmental management system as part of the overall management system of an organisation or company and provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance, like planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.	Environment	All sectors
ISO 22000	2005	ISO 22000 specifies requirements for food security and food safety management standards for companies and organizations in the food value chain, to ensure that food is safe at the time of human consumption. The standard involves interactive communication, system management, prerequisite programs and Hazard Analysis and Critical Control Point (HACCP) principles.	Consumer interests	All sectors

CERTIFICATION LABELS	YEAR	BACKGROUND	MAIN FOCUS AREAS	SECTOR
ISO 26000	2010	ISO 26000 provides guidance to companies on social responsible behaviour and possible actions, but does not have requirements, hence is merely a guideline and is not certifiable. It is the result of an on-going international and multi-stakeholder process based on results of science, technology, and best practice to assist organisations and companies in addressing their social responsibilities. By providing this guidance, this international standard is intended to assist organisations in contributing to sustainable development. ISO 26000 encourages an organization to undertake activities that go beyond legal compliance, recognising that compliance with law is a fundamental duty of any organisation and an essential part of its social responsibility.	Social	All sectors
Milieu Project Sierteelt (MPS)	1995	Environmental Protection certification, a combined environmental and labour code, initially based on environmental standards for pesticide and water use, but later expanded to include core ILO standards and parts of the Universal Declaration of Human Rights. The Floriculture Environmental Project (MPS) originated as a technical standard to reduce the environmental impact of cut flower production but added an optional social chapter based on the Universal Declaration of Human Rights and ILO Conventions in 2001. The MPS environmental standard, which focuses on pesticide and water use, leads to grading as MPS-A, B, or C. The MPS Social Chapter (known as MPS –SQ) has been benchmarked against the multi-stakeholder International Code of Conduct for Cut Flowers	Environment, general	Floriculture
GlobalGAP/EUREPGAP	1997/2000	GlobalGAP, also known as EUREPGAP, is a code developed in Europe specific for the agriculture (including aquaculture) sectors around the world. EUREPGAP began in 1997 as an initiative of the Euro-Retailer Produce Working Group with the aim of harmonising supply chain standards worldwide for good agricultural practice (GAP). EUREPGAP was changed to GlobalGAP in 2000. Specific focus is put on food safety and developing greater traceability throughout the value chain of a product, designed to meet consumer concerns about pesticides and food hygiene. In addition, great emphasis is put on the assurance of product quality. Environment and worker welfare issues are of secondary concern and social issues are virtually not addressed in the GlobalGAP standard. This standard was argued by the two companies to have become obligatory to access the European market with fresh products. For non-fresh products (dried, processed) the standards was not obligatory.	Traceability, Food safety	Agriculture
KenyaGAP	2012	Kenya-GAP is the only comprehensive (vegetables, flowers, fruits) quality assurance scheme from the African continent to acquire EurepGAP/GlobalGAP equivalence. It is also unique in the sense that it incorporates small scale farming techniques and concerns. Kenya-GAP has qualified as the first National scheme incorporating small scale farmers concerns to acquire EurepGAP equivalence. Kenya-GAP is the only scope to cover comprehensively, Flowers, Fruits and Vegetables and to have two independent auditable scopes within the same standard. The trade mark guarantees that the product has been produced, transported, graded, packaged and marketed under strict adherence to all principles of Good Agricultural Practices. Aims are:	Traceability, Food safety, Environment	Flowers, Fruits and Vegetables

CERTIFICATION LABELS	YEAR	BACKGROUND	MAIN FOCUS AREAS	SECTOR
		<ul style="list-style-type: none"> <li>To control and reduce Environmental degradation resulting from the use of crop protection products and post-harvest treatments.</li> <li>To safeguard soil, water and air and ensure the general conservation of the environment.</li> <li>To maintain produce freshness and safeguard consumer health.</li> <li>To maintain product traceability.</li> <li>To ensure the Welfare and Occupational Health and Safety of workers.</li> <li>To encourage sustainable agriculture</li> </ul>		
Kenya Flower Council (Silver)	1996	<p>The KFC was formed in 1994. The code originated as a technical standard addressing primarily environmental and pesticide related issues, but recent editions of the code have been much more comprehensive in their coverage of social issues.</p> <p>Members of the KFC account for the majority of Kenya's total cut flower exports. Member farms are regularly audited by KFC auditors and the auditing system is externally verified by a professional auditing firms.</p> <p>The silver standard outlines the following requirements:</p> <ul style="list-style-type: none"> <li>employee health, safety, supervision, welfare and training</li> <li>Social accountability issues – freedom of association and collective bargaining, gender and equity committees, harassment prevention mechanisms, child labour, equal pay for equal work and grievance handling.</li> <li>Good agricultural practices (GAP) including all EUREPGAP Cut flowers and Ornamentals requirements.</li> <li>Crop protection strategies including integrated pest management (IPM), resistance management to crop diseases and pest tolerance.</li> <li>Environmental Management Plan incorporating general protection of the natural environment, which includes water, air, land, flora, fauna as well as safe transportation, storage, and usage of pesticides and good management and safe disposal of all farm wastes.</li> <li>Proper record keeping and documentation of all aspects in crop protection and export to ensure traceability.</li> </ul>	Labour conditions, Environment	Floriculture, cut flower
Kenya Flower Council (Gold)	1996	<p>KFC's gold standard is the highest certification of the Council. It awards companies with the highest accreditation for environment, health &amp; safety, good agricultural practices and quality management systems, applied and monitored daily. This gold standard is based on the ISO 14001 (environmental) framework and other similar environmental systems. At the moment, 9 companies have achieved the gold certification standard. The requirements for the gold standards include:</p> <ul style="list-style-type: none"> <li>Formulation and implementation of company policies on environmental protection, safety and health, good agriculture practices and corporate social responsibility.</li> <li>Abstention from the use of any WHO class pesticides.</li> <li>The observation of standard set limits on the presence of pesticides, nitrate and phosphate</li> </ul>	Labour conditions, Environment, Impact assessment	Floriculture, cut flower

CERTIFICATION LABELS	YEAR	BACKGROUND	MAIN FOCUS AREAS	SECTOR
		<p>fertilizers used per year on different crops.</p> <ul style="list-style-type: none"> <li>• Managers of fertilizer application must be at least FACTS trained or equivalent, while those for pesticides should be at least BASICS trained.</li> <li>• Installation of constructed wetlands for waste water management.</li> <li>• Conduct energy audits yearly</li> <li>• Recycling of all waste water from non-soil media.</li> <li>• Provision of children day cares or time off for lactating mothers.</li> </ul>		
Kenya Bureau of Standards (KEBS)	2002	<p>The Kenya Bureau of Standards Certification Body (KEBS CB) is one of the leading Certification bodies in the East and Central African Region. It is owned by the Kenya Bureau of standards which is an organization established by an Act of parliament, The Standards Act, Cap 496 of the laws of Kenya. KEBS is accredited to certify companies on different standards, environmental, quality management, health and safety, food safety management, information technology management, information security management, hygiene practice in food establishments and catering services.</p>	Environment, health and safety, hygiene, quality, technology, information security, food safety.	Industry and commerce
ILO Declaration on Fundamental Principles and Rights at Work	1998	<p>Adopted in 1998, the Declaration on Fundamental Principles and Rights at Work by the International Labour Organisation (ILO) is an expression of commitment by governments, employers and workers organisations to uphold basic human values that are vital to social and economic life. The Declaration covers four areas:</p> <ul style="list-style-type: none"> <li>• Freedom of association and the right to collective bargaining;</li> <li>• The elimination of forced and compulsory labour;</li> <li>• The abolition of child labour, and;</li> <li>• The elimination of discrimination in the workplace.</li> </ul>	Labour standards	All sectors

## ANNEX 6: Responsibility level Likert scale question

In this appendix the process and outcomes of tests done in SPSS on the research results are discussed in more detail. First the process and outcomes regarding the reliability analysis of the different stakeholder questions on responsible business practices are discussed in more detail, followed by box plots made for the responsibility level of the different stakeholder group. Finally the outcomes regarding non-parametric tests conducted on the research results are discussed.

### 6.1 RELIABILITY ANALYSIS

To find out whether the results of the different statements on responsible business practices of six the different stakeholder groups can be regarded reliable, that they consistently reflect the construct that they are measuring, a reliability analysis was conducted. Generally a Cronbach's alpha level of 0.7 or higher is regarded as reliable.

For the responsible business statements regarding employee activities a reliability analysis was conducted. The outcomes are shown below (table 1). As can be seen from the first table, the Cronbach's alpha is 0.784 and thus the employee statements can be regarded as reliable. However, from the second table can be seen that when statement 1 '*the enterprise is paying its employees more than similar local companies*' would be excluded from the reliability analysis Cronbach's alpha would increase to 0,804 (*Cronbach's Alpha if item deleted*). In addition, from Corrected item-total correlation can be seen that the level of the first statement is below 0.3. This indicates fairly bad internal consistency and identifies the first statement as a potential problem. For this reason the first statement would need to be excluded from further tests. However as it is an interesting statement and many enterprises have very specific reasons for answering the way they do, the statement will not fully be excluded from research results.

Table 1 : Outcomes reliability analysis SPSS, variables employee statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,784	10

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
EMPLIK1	38,3784	26,575	,195	,804
EMPLIK2	39,0270	23,083	,412	,779
EMPLIK3	37,9730	25,360	,422	,769
EMPLIK4	37,8108	27,158	,454	,771
EMPLIK5	37,8378	24,195	,633	,745
EMPLIK6	38,2432	23,856	,493	,760
EMPLIK7	37,4865	27,868	,332	,779
EMPLIK8	37,8378	24,473	,628	,747
EMPLIK9	38,2432	23,467	,597	,746
EMPLIK10	38,0811	23,743	,587	,748

Also for the responsible business statements regarding community activities a reliability analysis was conducted and the outcomes are shown below (table 2). As can be seen from the table, the Cronbach's alpha is 0.928, which is very high. Hence the community statements can be regarded as reliable. In addition, from the second table can be seen that none of the statements would increase the reliability with a great amount if they were deleted (*Cronbach's alpha if item deleted*). All statements are also much higher than 0.3, in the *corrected item-total correlation*. For this reason none of the statements will be excluded from research results and tests.

Table 2: Outcomes reliability analysis SPSS, variables community statements

Reliability Statistics				
Cronbach's Alpha		N of Items		
,928		10		

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
COMLIK1	30,5405	101,866	,782	,917
COMLIK2	30,4054	101,414	,701	,922
COMLIK3	30,3784	103,297	,785	,917
COMLIK4	29,9189	113,021	,483	,932
COMLIK5	30,8378	103,806	,753	,919
COMLIK6	30,5135	100,979	,800	,916
COMLIK7	30,5676	107,252	,775	,919
COMLIK8	30,4324	104,808	,769	,918
COMLIK9	30,2973	103,104	,733	,920
COMLIK10	29,9189	108,465	,646	,924

For the responsible business statements regarding supplier activities the reliability analysis (table 3) shows a Cronbach's alpha of 0.871. As this is very high (and above 0.7), the supplier statements can be regarded as reliable. In addition, from the second table can be seen that none of the statements would increase the reliability with a great amount if they were deleted (*Cronbach's alpha if item deleted*). All statements are also much higher than 0.3, in the *corrected item-total correlation*. For this reason none of the statements will be excluded from research results and tests.

Table 3: Outcomes reliability analysis SPSS, variables supplier statements

Reliability Statistics				
Cronbach's Alpha		N of Items		
,871		10		

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
SUPPLIK1	30,1351	61,176	,621	,856
SUPPLIK2	29,5946	62,192	,611	,857
SUPPLIK3	30,4865	56,701	,737	,846
SUPPLIK4	30,0270	64,249	,498	,865
SUPPLIK5	30,9459	64,830	,451	,869
SUPPLIK6	29,8378	61,029	,754	,848
SUPPLIK7	30,2703	58,869	,675	,851
SUPPLIK8	30,7568	62,300	,531	,863
SUPPLIK9	30,7838	60,619	,614	,856
SUPPLIK10	31,2162	63,396	,434	,872

Also for the responsible business statements regarding environment activities a reliability analysis was conducted and the outcomes are shown below (table 4). As can be seen from the table, the Cronbach's alpha is 0.918, again very high. Hence the environment statements can be regarded as reliable. In

addition, from the second table can be seen that none of the statements would increase the reliability with a great amount if they were deleted (*Cronbach's alpha if item deleted*). All statements are also higher than 0.3, in the *corrected item-total correlation*. For this reason none of the statements will be excluded from research results and tests.

Table 4: Outcomes reliability analysis SPSS, variables environment statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,918	10

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
ENVLIK1	32,4865	92,535	,645	,913
ENVLIK2	32,6216	86,908	,818	,903
ENVLIK3	32,6486	83,679	,882	,898
ENVLIK4	32,6486	90,901	,736	,908
ENVLIK5	33,2703	93,092	,554	,918
ENVLIK6	33,1622	86,640	,647	,914
ENVLIK7	32,9189	92,132	,590	,916
ENVLIK8	33,0270	93,360	,546	,918
ENVLIK9	33,3514	90,012	,735	,908
ENVLIK10	32,9730	84,638	,827	,902

For the responsible business statements regarding supplier activities the reliability analysis (table 5) shows a Cronbach's alpha of 0.659. This level is lower than 0.7 and could mean the customer statements cannot be regarded as reliable. When looking at *Cronbach's alpha if item deleted* we can see that some of the statements when deleted will give a higher Cronbach's alpha (statements 5, 6, 8, 10). In addition, statements 4, 5, 6, 8 and 10 have a lower level than 0.3, in the *corrected item-total correlation*. For this reason the three statements that have the lowest level in *Corrected item-total correlation* are excluded from research results. These are the statements 5 'the enterprise takes into account the demands of clients when developing new products and/or services', 6 'the enterprise avoids engagement in price fixing' and 10 'the enterprise has a procedure in place to share performance standards with clients'. When excluded the Cronbach's alpha increases to 0,717, which is regarded high enough and thus reliable (table 6). Hence the statements 5, 6 and 10 will be excluded from research results.

Table 5: Outcomes reliability analysis SPSS, variables customer statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,659	10

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
CUSTLIK1	35,8919	20,932	,529	,586
CUSTLIK2	35,5135	21,090	,697	,562
CUSTLIK3	35,1081	22,821	,517	,600
CUSTLIK4	35,1351	26,509	,165	,659
CUSTLIK5	35,2162	26,952	,059	,677

CUSTLIK6	35,6216	25,964	,112	,674
CUSTLIK7	35,2162	21,730	,442	,607
CUSTLIK8	36,8649	22,565	,217	,674
CUSTLIK9	35,0811	23,354	,430	,615
CUSTLIK10	35,9730	25,638	,164	,663

Table 6: Outcomes reliability analysis, variables customer statements, after exclusion of statements 5, 6 and 10.

Reliability Statistics	
Cronbach's Alpha	N of Items
,717	7

Finally, for the responsible business statements regarding management activities outcome of the reliability analysis (table 7) is Chronbach's alpha 0.862. Thus the management statements can be regarded as reliable. However, from the second table can be seen that when statement 6 *'the enterprise strives for a competitive return on investment'* would be excluded from the reliability analysis Cronbach's alpha would increase to 0.874 (*Cronbach's Alpha if item deleted*). In addition, from Corrected item-total correlation can be seen that the level of the sixth statement is below 0.3 (0,196), in the *corrected item-total correlation*. This indicates fairly bad internal consistency and identifies the first statement as a potential problem. For this reason the first statement is excluded from further tests. However as it is an interesting statement and many enterprises have very specific reasons for answering the way they do, the statement will not fully be excluded from research results.

Table : Outcomes reliability analysis SPSS, variables customer statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,862	10

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
MANALIK1	33,3514	39,179	,759	,832
MANALIK2	33,3784	40,742	,567	,851
MANALIK3	32,7568	42,245	,619	,845
MANALIK4	33,0811	40,688	,764	,834
MANALIK5	33,2973	41,826	,604	,846
MANALIK6	32,4054	48,526	,196	,874
MANALIK7	32,8378	42,251	,559	,850
MANALIK8	32,5676	45,419	,378	,864
MANALIK9	33,3243	40,392	,700	,838
MANALIK10	33,3243	42,670	,558	,850

## 6.2 BOXPLOTS

In SPSS a descriptive statistics explore task was performed. This section shows the outcomes of this task. For the likert scale questions per stakeholder group, box plots were made for the market focus of a company, the size of a company and the sector focus of a company. With this information we can find the similarities and differences between the different companies.

In figure 1 the box plot of the total level of responsible business activities and the market focus of companies is shown. From the figure can be seen that the mean of responsible business activities level is higher for companies with an international market focus compared to companies with a

local/national market focus. In addition, the middle 50% of levels of companies with an international market focus is a lot higher than the middle 50% of levels of companies with a local/national market focus. However, the highest level of responsible business is of a company with a local/national market focus. Also the lowest level of responsible business is of a company with a local/national market focus. The figure shows that the dispersion for companies with a local/national market focus is much wider than for companies with an international market focus.

Figure 1: box plot responsible business level (total) and market focus.

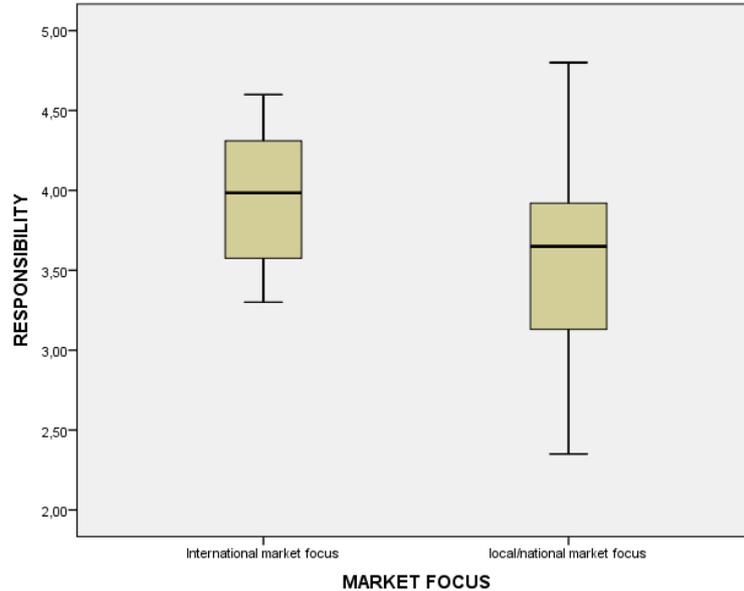
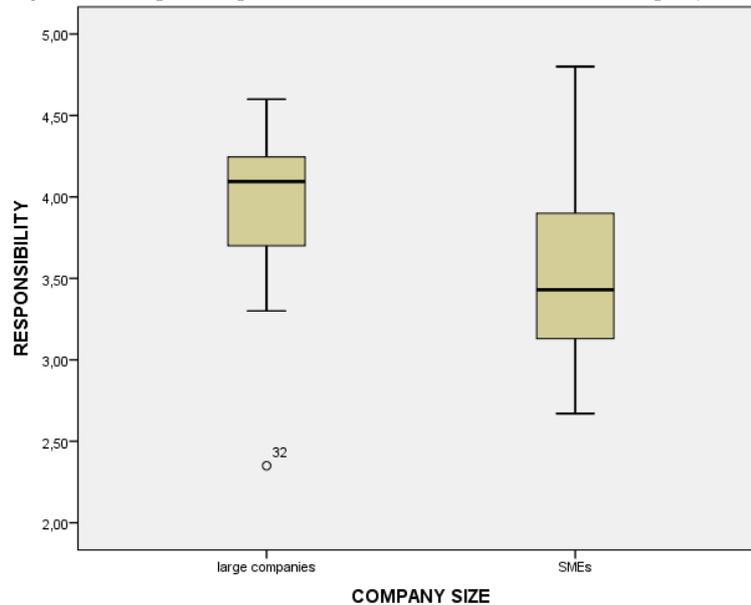


Figure 2 shows the box plot of responsible business activities by company size. From the figure can be seen that the bigger the size of the company the higher the mean for responsible business level. For medium and small sized company this mean level is the same. Interestingly the dispersion for small enterprises is very widespread and small companies have the highest responsible business level and the lowest responsible business level.

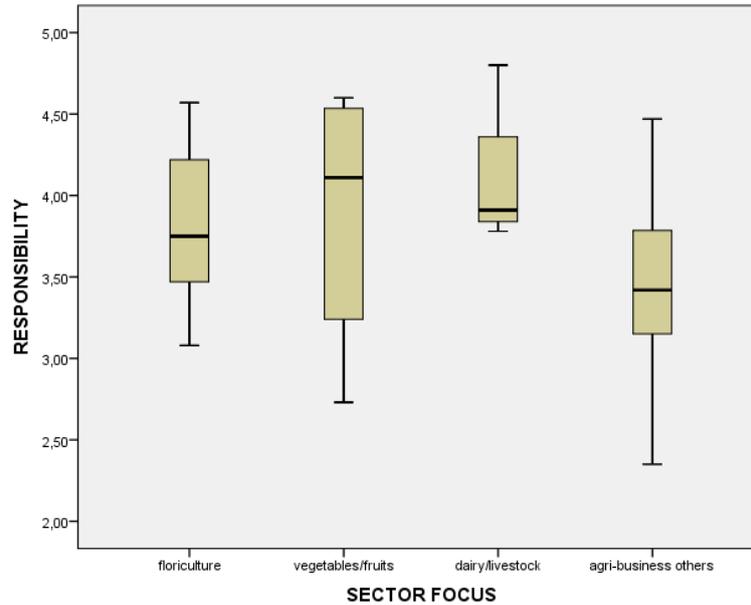
Figure 2: box plot responsible business level (total) and company size.



Finally, figure 3 shows the box plot of responsible business activities by sector focus. This figure shows that there are quite some differences between the different sectors regarding responsible business levels. The mean level of the vegetable/fruit sectors is highest, followed by the dairy/livestock sector, the floriculture sector and finally the agribusiness other sector. However

because some of the sectors (vegetables/fruits and dairy/livestock) encompass only a few cases some caution is regarded when examining the research results of these sectors.

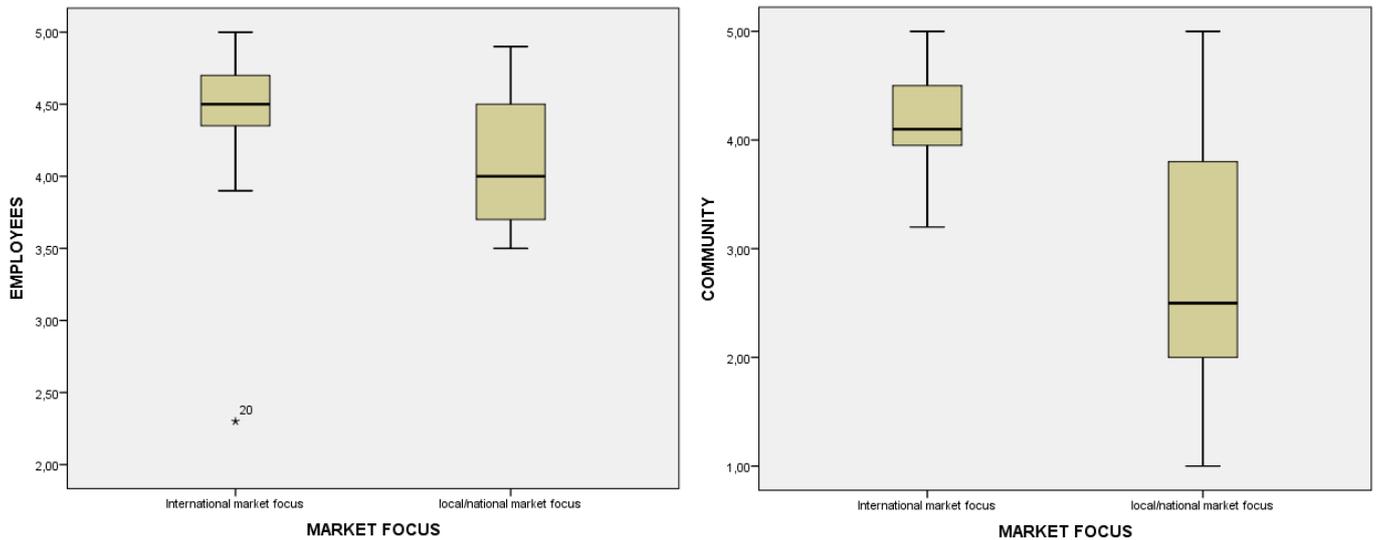
Figure 3: box plot responsible business level (total) and company size.



In the next section box plots are presented of responsible business levels for the different stakeholder groups and per market focus, company size and sector focus, to reveal the similarities and differences among the different stakeholder groups.

Figure 4 shows the box plots per stakeholder group and market focus. Interestingly, the mean of the responsibility level of export enterprises for all stakeholder groups the mean is higher than for domestic enterprises, except for the supplier group, for which the means of both enterprise groups is the same. In addition, with the supplier group the international market focus enterprises have the highest and the lowest responsibility level.

Figure 4: results likert scale questions per stakeholder group in relation to market focus.



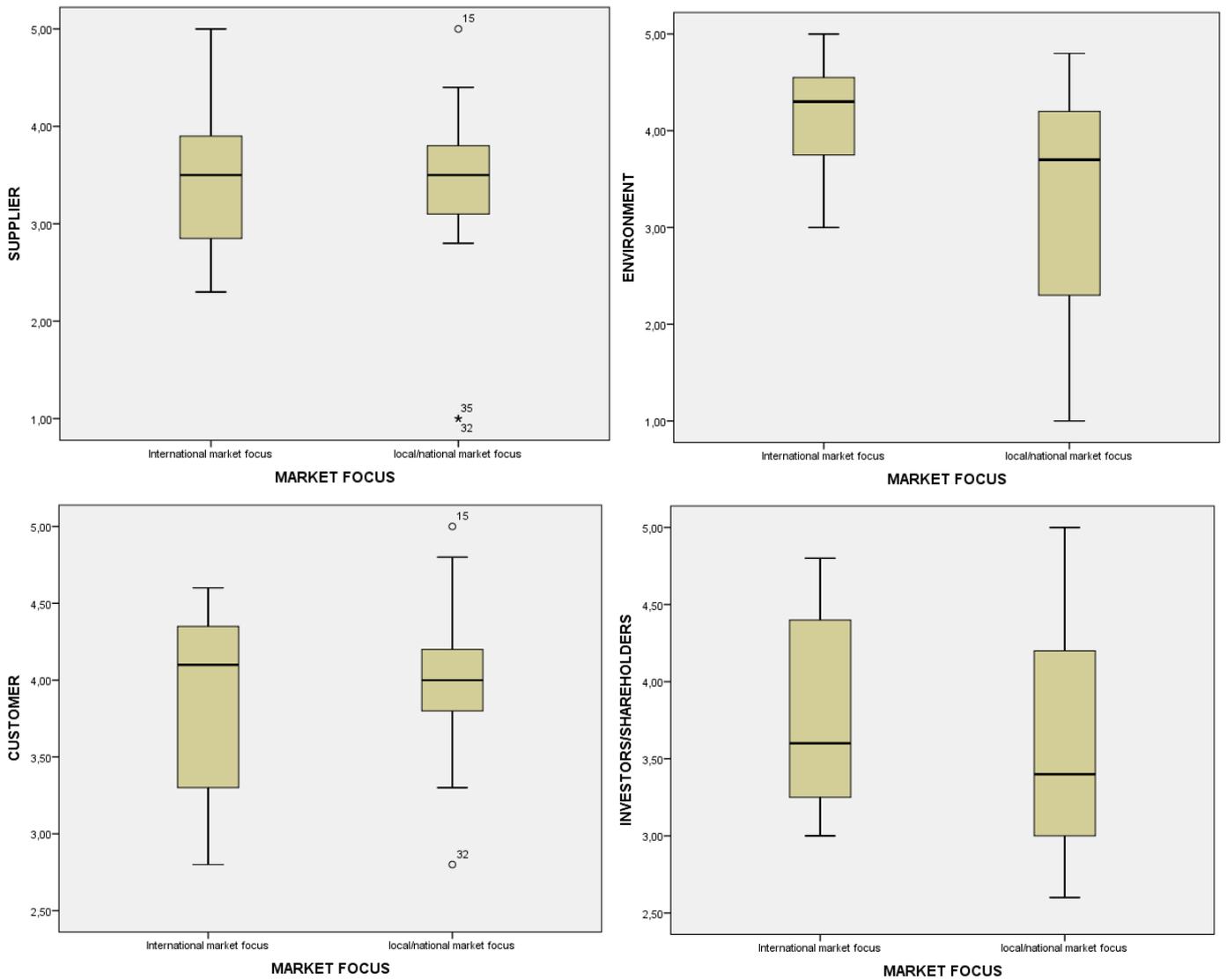
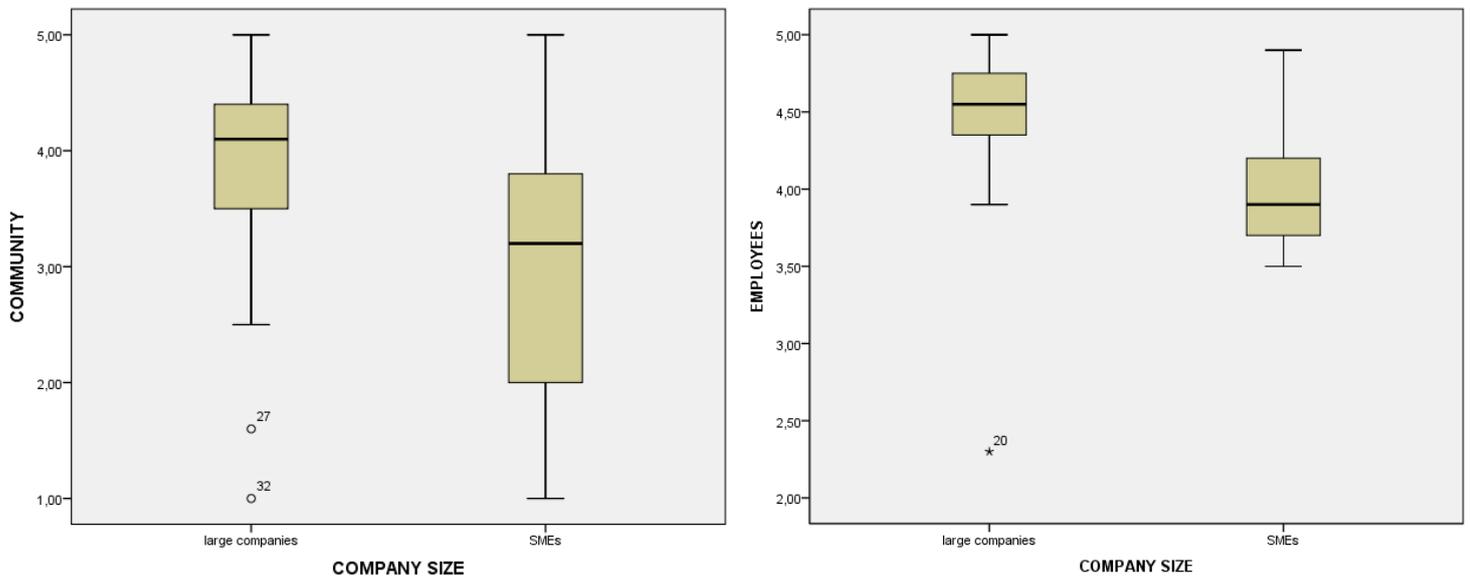


Figure 5 shows the box plots of the different stakeholder groups and the size of the company. From the figure can be seen that there are large differences between the different stakeholder groups and company size.

Figure 5: results likert scale questions per stakeholder group in relation to company size



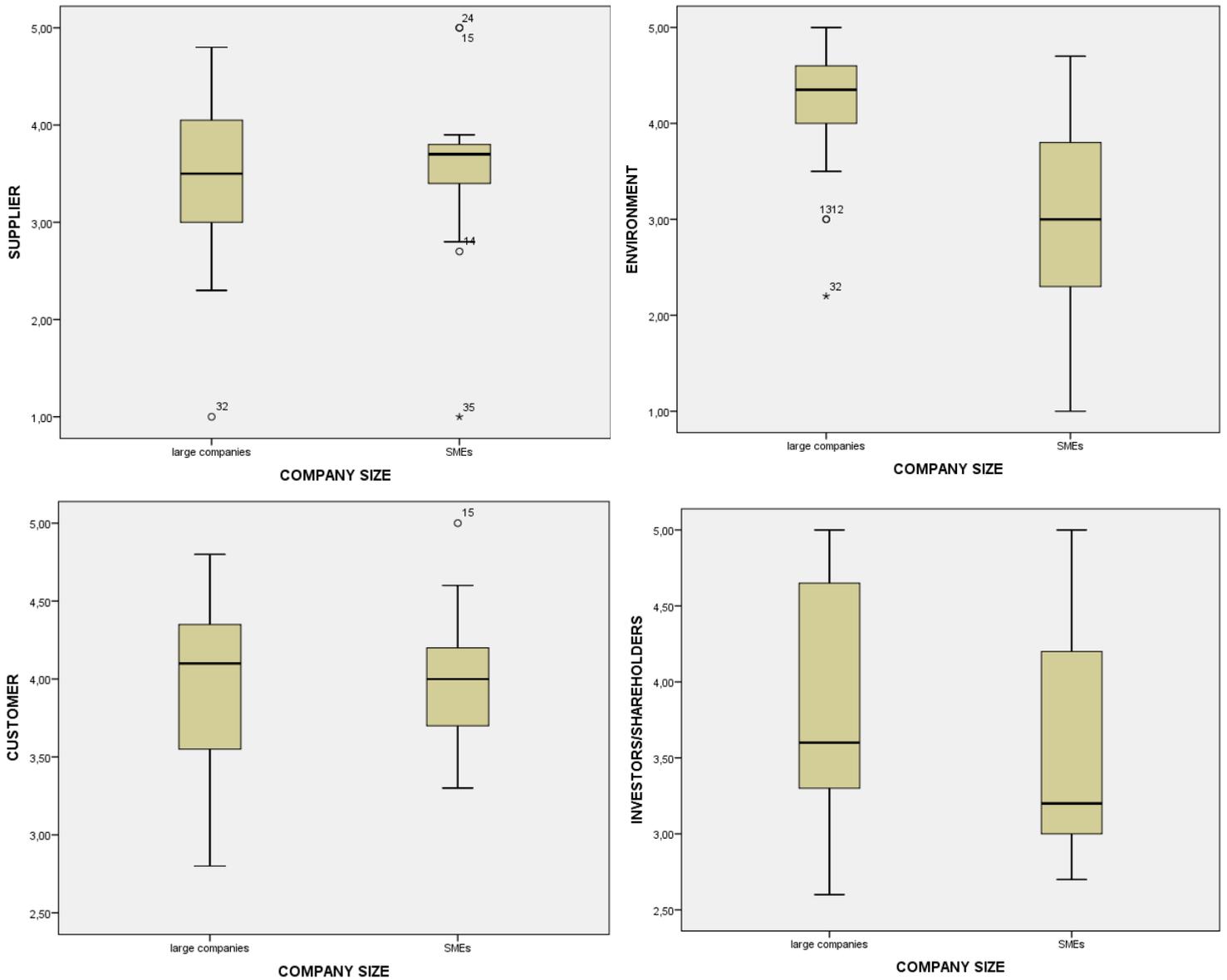
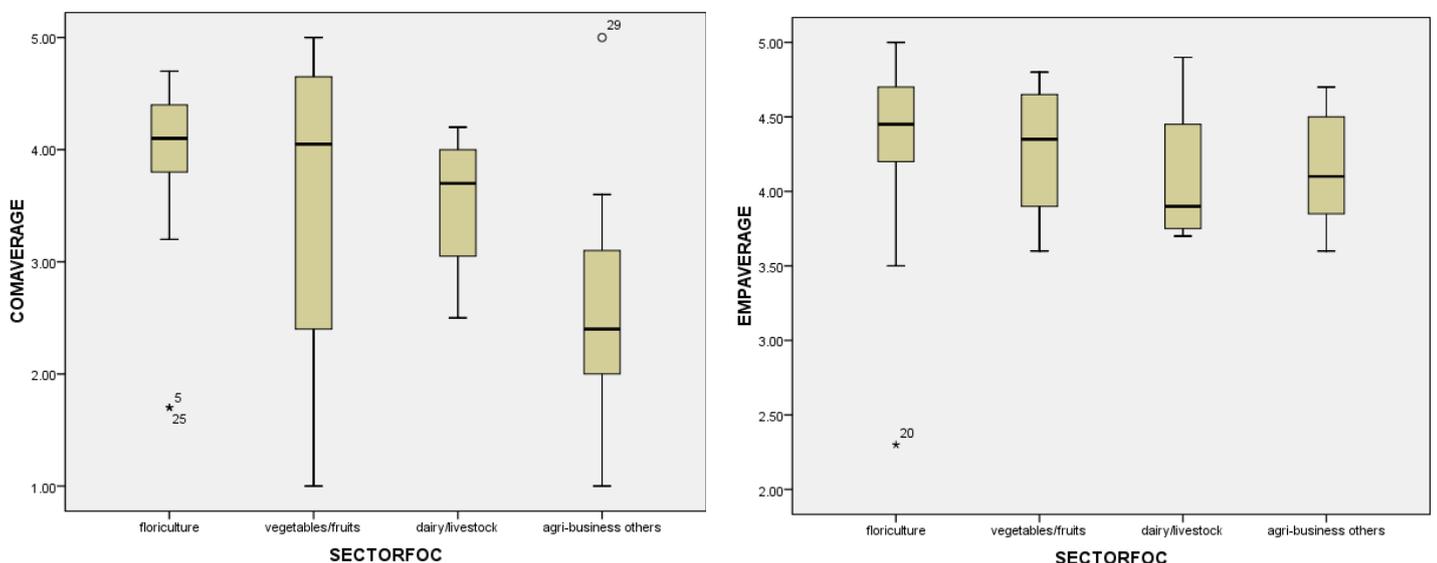
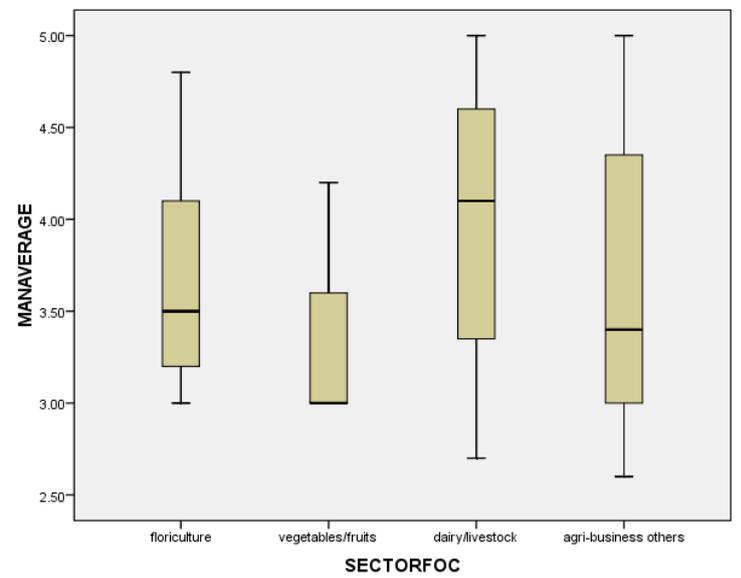
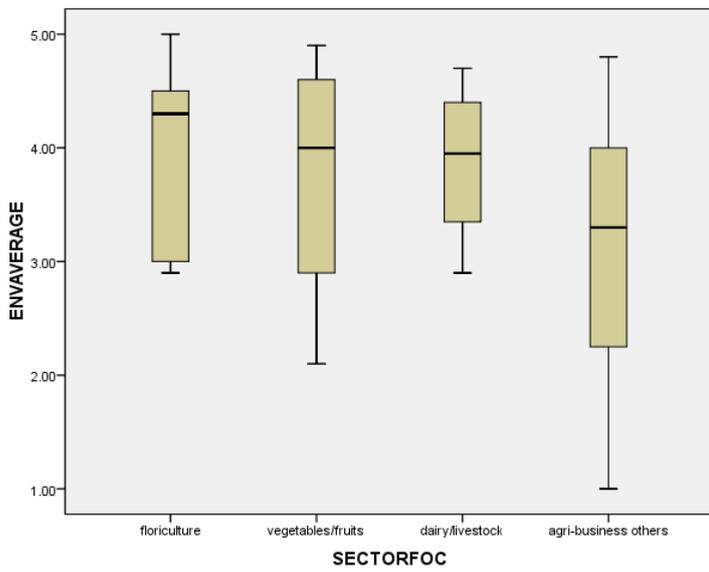
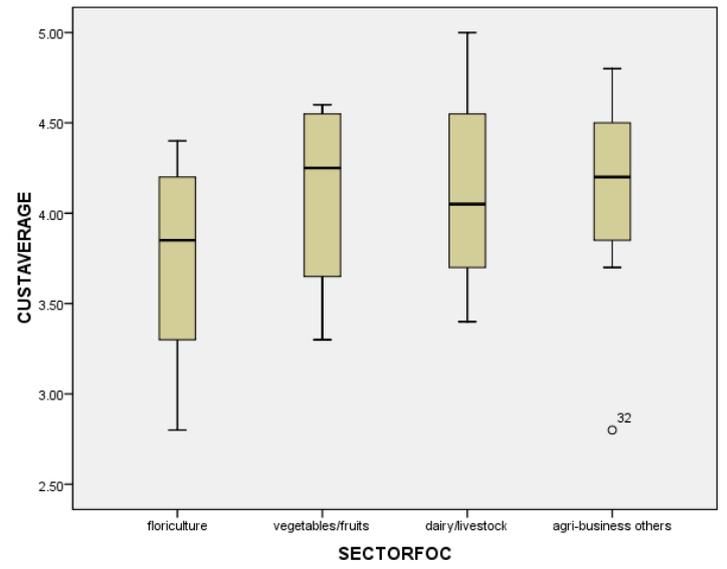
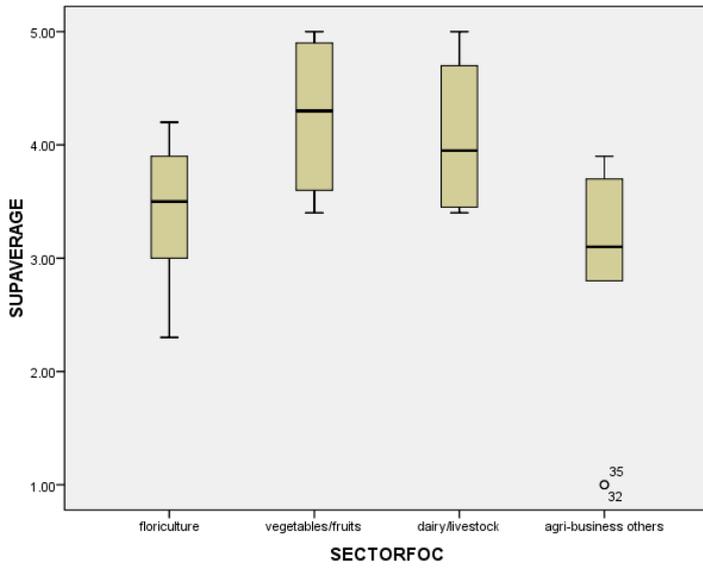


Figure 6 shows the box plots of the different stakeholder groups and the size of the company. From the figure can be seen that there are large differences between the different stakeholder groups and company size.

Figure 6: results likert scale questions per stakeholder group in relation to company size





## ANNEX 7: Carroll's CSR categories

### 7.1 CSR DIMENSTIONS

As noted in the theoretical framework Carroll (1978) identifies 4 categories or dimensions of CSR; philanthropy, ethical, legal and economic. To find out whether which dimensions of CSR Dutch enterprises in agribusiness in Kenya focus most on the statements of the likert scale question are divided into the four categories of CSR of Carroll. This is done in the following way:

DIMENSIONS OF CSR	STATEMENTS
Economic	The enterprise is engaging in initiatives contributing to local development because it has a positive influence on the overall profitability of the business.
	The enterprise encourages fair competition and prevents anti-competitive behaviour
	The enterprise strives for competitive return on investment
	The enterprise supports its suppliers in improving their environmental, social and economic performance.
Legal	There is a process to monitor compliance with relevant employment laws and regulations.
	There is a process in place to monitor compliance with environmental regulations and industry-specific codes of practice.
	There is a process to assess the compliance of corporate governance with relevant local codes.
	The enterprise provides clean, healthy and safe working conditions.
	The enterprise has health and safety regulations in place in the workplace
Ethical	The environmental and social impacts of the enterprise on the surrounding communities are mitigated
	Where activities have a potentially significant impact on the community, the company has a process to minimize the negative impacts
	The enterprise engages in meaningful dialogue with the community where there are concerns about its products or operations.
	The enterprise identifies and mitigates impacts of its operations and products on the environment.
	The enterprise takes into account the potential environmental impacts when developing new products or expanding operations.
	The principles and practice of corporate governance are clearly communicated to shareholders.
	The enterprise provides its investors with clear and comprehensive information about corporate governance performance
Philanthropic	The enterprise encourages employee participation in community projects.
	The enterprise improves social infrastructure and living conditions in surrounding communities.
	The enterprise is involved in infrastructure projects for the local community (schools, health centres, electricity connections, etc.).
	The enterprise caters for the communities demands and needs
	There is a programme of support for community projects and activities that is appropriate to the enterprise and the needs of the community.
	The enterprise is engaging in initiatives contributing to local development because it has a positive influence on the overall profitability of the business.
	There is a process to encourage employees and contractors to participate actively in environmental protection.

### 7.2 RELIABILITY ANALYSIS

To find out whether the results of the four dimensions and the statements they include can be regarded as reliable, that they consistently reflect the construct that they are measuring, a reliability analysis was conducted. Generally a Cronbach's alpha level of 0.7 or higher is regarded as reliable.

For the dimension philanthropy a reliability analysis was conducted. The outcomes are shown below (table 1). As can be seen from the first table, the Cronbach's alpha is 0.867 and thus the philanthropy statements can be regarded as reliable. From the second table can be seen that all statements are higher than 0.3, in the *corrected item-total correlation*, and that Chronbach's alpha will

not increase substantially when one of the statements would be excluded (*Cronbach's Alpha if Item Deleted*). Thus none of the statements will be excluded from further research results.

Table 1: Outcomes reliability analysis SPSS, variables philanthropy statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,867	7

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
PHIL1	20,2703	43,258	,610	,853
PHIL2	20,3514	40,179	,679	,843
PHIL3	20,2162	38,119	,698	,841
PHIL4	20,3784	42,686	,722	,840
PHIL5	20,1081	38,377	,785	,827
PHIL6	19,7297	41,925	,687	,843
PHIL7	20,3514	48,234	,331	,885

For the dimension 'legal responsibility' a reliability analysis was conducted. The outcomes are shown below (table 2). As can be seen from the first table, the Cronbach's alpha is 0.704 and thus the legal statements can be regarded as reliable. From the second table can be seen that all statements are higher than 0.3, in the *corrected item-total correlation*, and that Chronbach's alpha will not increase substantially when one of the statements would be excluded (*Cronbach's Alpha if Item Deleted*). Thus none of the statements will be excluded from further research results.

Table 2: Outcomes reliability analysis SPSS, variables legal statements

Reliability Statistics	
Cronbach's Alpha	N of Items
,704	5

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
LEG1	15,5946	11,303	,398	,682
LEG2	16,6757	6,281	,628	,596
LEG3	16,7568	9,856	,348	,710
LEG4	15,5676	11,474	,649	,647
LEG5	15,7297	10,036	,577	,619

For the dimension 'economic responsibility' a reliability analysis was conducted. The outcomes are shown below (table 3). As can be seen from the table only one statements is higher than 0.3 (*Corrected Item-Total Correlation*) and that Chronbach's alpha will not increase substantially (to 0.7) when one of the statements would be excluded (*Cronbach's Alpha if Item Deleted*). These outcomes are also due to the fact that enterprises differ extremely in opinion about the economic statements, some scored very high while others (intentionally) scored very low on economic responsibility. Thus, as these statements cannot be regarded as reliable no further tests will be performed using this data and caution will be regarded when analysing the results of the data of the economic responsibility dimension.

Table 3: Outcomes reliability analysis SPSS, variables economic statements

Reliability Statistics				
Cronbach's Alpha		N of Items		
,234		4		

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
ECON1	11,1081	3,544	,117	,190
ECON2	10,9459	3,664	,358	-,120 <sup>a</sup>
ECON3	10,6486	5,512	-,072	,361
ECON4	12,1351	4,065	,091	,221

a. The value is negative due to a negative average covariance among items. This violates reliability model assumptions. You may want to check item codings.

Finally, for the dimension 'ethical responsibility' a reliability analysis was conducted. The outcomes are shown below (table 4). As can be seen from the first table, the Cronbach's alpha is 0.785 and thus the ethical statements can be regarded as reliable. From the second table can be seen that all statements are higher than 0.3, in the *corrected item-total correlation*, and that Chronbach's alpha will not increase substantially when one of the statements would be excluded (*Cronbach's Alpha if Item Deleted*). Thus none of the statements will be excluded from further research results.

Table : Outcomes reliability analysis SPSS, variables ethical statements

Reliability Statistics				
Cronbach's Alpha		N of Items		
,785		8		

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
ETH1	24,9189	31,799	,609	,741
ETH2	25,5135	29,757	,618	,738
ETH3	25,4324	32,586	,519	,756
ETH4	25,1081	34,488	,447	,768
ETH5	24,6757	33,781	,511	,758
ETH6	25,1081	33,099	,492	,761
ETH7	25,4054	36,081	,374	,778
ETH8	25,1351	37,565	,327	,784

## ANNEX 8: SPSS OUTCOMES

For several reasons it was not possible to perform parametric tests. First, the variables used for testing (levels responsibility for the 6 stakeholder groups etc.) were not normally distributed. Second, as the amount of sample cases was rather small, a non-parametric test (Mann-Whitney) would allow more accurate assumptions and conclusions. To test whether different variables correlate to each other the Spearman's rho correlation test was used. This test is suitable for small research populations.

### 8.1 CHARACTERISTICS ENTREPRENEURS AND ENTERPRISES

No correlation was found between the total responsibility level and the amount of years an entrepreneur has been in Kenya. On the other hand, between the age of an entrepreneur and the responsibility level there was a correlation of 0.446, with a significance of 0.025. This means that as the age of entrepreneurs increases the level of responsibility of that enterprises increases as well. Older entrepreneurs are in this case thus more responsible than young entrepreneurs. No correlation was found between the year an enterprise was founded and the total responsibility level of that enterprise.

For different variables that determine a company's size a correlation test was conducted. A correlation of 0.345 was found between the responsibility level and the turnover of a company, with a significance of 0.036. This means that as a company's turnover increases the responsibility level of that enterprise also increases. A correlation was also found between a company's responsibility level and the amount of employees a company has, of 0.419 and with a significance of 0.010. This means that as the amount of employees increases the responsibility level also increases. In addition, there is a correlation between the responsibility level for just the employee group and the amount of employees a company has, of 0.480 and with a significance of 0.003. This means that as the amount of employees increases the responsibility level for employees in addition increases. Finally, there was a correlation between the responsibility level and amount of land (in hectares) of a company, with 0.456 and a significance of 0.022. This means that as the amount of land that a company has in possession (in hectares) increases the level of responsibility also increases.

### 8.2 RESONSIBLE BUSINESS PRACTICES: LIKERT SCALE QUESTION

The non-parametric test Mann-Whitney for the total responsibility level of the two populations export companies and domestic companies found that these two populations are significantly different. With a significance of 0,044 the null-hypothesis, that the distribution of the total responsibility is the same across the two groups of market focus, was rejected.

The spearman's rho correlation test done for a company's market focus and the total level of responsible business shows that there is a correlation between the two variables. Figure 1 shows that the two variables correlate with a significance level of 0.041. As can be seen there is a positive correlation between market focus and the total level for responsible business (0.338). Although the correlation is not very strong (closer to 0 than to 1) it does mean that as market focus increases the total level of responsible business decreased. Hence companies producing for the international market have a higher total responsibility level, are more responsible than companies producing for the local/national market.

Figure 1: correlation spearman's rho market focus (MARKETFOC) and responsible business level total (TOTALLIKAVERAGE).

		MARKETFOC	TOTALLIKAVERAGE
Spearman's rho	MARKETFOC	Correlation Coefficient	1,000
		Sig. (2-tailed)	,338
		N	37
	TOTALLIKAVERAGE	Correlation Coefficient	,338
		Sig. (2-tailed)	,041
		N	37

\*. Correlation is significant at the 0.05 level (2-tailed).

When specifically testing whether the distribution is the same across the two market focus groups, for the different responsibility groups, some interesting results occur. For employee responsibility the Mann-Whitney test shows that the distribution across the two market focus groups are regarded the same. The null-hypothesis is retained with a significance of 0.055. For community responsibility the

Mann-Whitney test shows that the distribution across the two market focus groups is regarded as different. The null-hypothesis is rejected with a significance of 0.001. For supplier responsibility the Mann-Whitney test shows that the distribution across the two market focus groups is regarded as the same. The null-hypothesis is retained with a significance of 0.844. For environmental responsibility the Mann-Whitney test shows that the distribution across the two market focus groups is regarded as different. The null-hypothesis is rejected with a significance of 0.018. For customer responsibility the Mann-Whitney test shows that the distribution across the two market focus groups is regarded as the same. The null-hypothesis is retained with a significance of 0.683. For management responsibility the Mann-Whitney test shows that the distribution across the two market focus groups is regarded as different. The null-hypothesis is rejected with a significance of 0.354.

When specifically testing the correlation of the different stakeholder responsible business statements and market focus some stakeholder groups correlate while others do not. For the statements regarding employee activities and market focus a correlation (negative) exists (-0.323) significance 0.051. There is also a correlation between community responsibility and market focus. Negative correlation of -0.555, with a significance of 0.000. Finally, there was also a correlation present between environment related activities and market focus. Negative correlation -0.394, with a significance of 0.016. There was no correlation present between supplier activities and market focus, management activities and market focus and between customer activities and market focus.

The non-parametric test Mann-Whitney was conducted for the total responsibility level for the two company size populations, large/multinational companies and SMEs. The test showed that the null-hypothesis was rejected with a significance of 0.015. Hence, in this case there is a significant difference between the distribution of total responsibility across the two company size groups.

A correlation (spearman's) test was also conducted for the total responsibility level and the size of a company (figure 2). Also between these variables there is a correlation found of 0.402 with a significance level of 0.014. Again the correlation between the two variables is not strong (closer to 0 than to 1) but it does mean that as company size increases the total level of responsible business increases. Hence companies that are large in size (multinationals, large companies) have a higher total responsibility level, and are more responsible than companies of small and medium size.

Figure 2: correlation spearman's rho company size (COMSIZE) and responsible business total level (TOTALLIKAVERAGE)

		COMSIZE	TOTALLIKAVERAGE	
Spearman's rho	COMSIZE	Correlation Coefficient	,341*	
		Sig. (2-tailed)	,039	
		N	37	
	TOTALLIKAVERAGE	Correlation Coefficient	,341*	1,000
		Sig. (2-tailed)	,039	.
		N	37	37

\*. Correlation is significant at the 0.05 level (2-tailed).

When specifically testing the for the different responsibility groups whether the distribution is the same across the two company size groups some interesting results occur. For employee responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded different. The null-hypothesis is rejected with a significance of 0.001. For community responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded different. The null-hypothesis is rejected with a significance of 0.011. For supplier responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded the same. The null-hypothesis is retained with a significance of 0.752. For environmental responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded different. The null-hypothesis is rejected with a significance of 0.000. For customer responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded the same. The null-hypothesis is retained with a significance of 0.845. For supplier responsibility the Mann-Whitney test shows that the distribution across the two company size groups is regarded different. The null-hypothesis is rejected with a significance of 0.045.

When specifically testing the correlation of the different stakeholder responsible business statements and company size some stakeholder groups correlate while others do not. For the statements regarding employee activities and company size there is a correlation of 0.545 with a

significance of 0.000. In addition, environment activities correlate with the size of the company with 0.575 with a significance of 0.000. For the statements regarding community activities and company size there is a correlation of 0.422 with a significance of 0.009. Finally, management activities correlate with the size of the company with 0.334 with a significance of 0.044. There was no correlation present between supplier's activities and company size and between customer activities and company size. Overall we can say that there is a clear correlation between employee, environment, community and management activities and the size of a company, and that larger companies are more responsible regarding these three activities than smaller companies.

A Kruskal-Wallis was conducted for the total responsibility level for the four sub sector populations. The test showed, with a significance of 0.117, that the null-hypothesis, that the distribution of the total responsibility is the same across the four sub sectors, was retained. For all individual responsibility groups the test was also done and showed that only for community responsibility the distribution was different across the sub sectors, with a significance of 0.037.

Furthermore, a correlation (spearman's) test was also conducted for the total responsibility level and the different sub-sectors in which companies were operational. There was however no correlation found between the two variables. When specifically testing the correlation of the different stakeholder responsible business statements and sector focus some stakeholder groups correlate while others do not. Between community activities and sector focus there is a correlation of -0.467 with a significance of 0.004. However between all the other stakeholder groups there is no correlation with the sector focus.

Finally, the Mann-Whitney test was conducted for the total responsibility level for the two populations, certified and not certified. The test showed that the null-hypothesis was retained with a significance of 0.589. Hence, the distribution of total responsibility is the same across companies that are certified and companies that are not certified. Also for the different responsibility groups there is no difference in distribution across certified and non-certified companies.

A correlation (spearman's) test was also conducted for the total responsibility level and whether a company is certified or not. Between these variables there is no correlation found. When specifically testing the for the different responsibility groups whether the distribution is the same across the certified and non-certified companies, there is still no correlation existent.

To find whether larger companies are more certified than smaller companies. A correlation test (spearman's) was conducted for company size and certification of companies. The test shows (figure 3) that there is a link between the size of a company and whether it is certified or not, with a correlation coefficient of 0.465 and a significance of 0.004. This means that as company size increases the chance that they are certified increases. This correlation test was also conducted for the type of certification, domestic, international and both. The test shows that also between the type of certification and company size there is a link, with a correlation coefficient of 0.511 and a significance of 0.001. This means that as company size increases the chance that companies are internationally or even domestically and internationally certified also increases. Hence, larger companies are generally more certified than smaller companies and larger companies generally have international or even domestic and international certifications.

Figure 3: correlation spearman's rho company size (COMSIZE) and certification

		Certified	Certified2	COMSIZE
Spearman's rho	Correlation Coefficient	1,000	,819**	-,465**
	Certified Sig. (2-tailed)	.	,000	,004
	N	37	37	37
	Correlation Coefficient	,819**	1,000	-,511**
	Certified2 Sig. (2-tailed)	,000	.	,001
	N	37	37	37
	Correlation Coefficient	-,465**	-,511**	1,000
	COMSIZE Sig. (2-tailed)	,004	,001	.
	N	37	37	37

To find whether the market focus determines whether companies are certified or not a correlation test (spearman’s) was conducted for the variables market focus and certification of companies. The test shows (figure 4) that there is a positive link between a company’s market focus and whether it is certified or not, with a correlation coefficient of 0.329 and a significance of 0.047. This means that as a company’s market focus scale increases the chance that the companies are certified also increases. This correlation test was also conducted for the type of certification, domestic, international and both domestic and international. The test shows that also between the type of certification and a company’s market focus there is a positive link, with a correlation coefficient of 0.497 and a significance of 0.002. This means that as a company’s market focus scale increases the chance that companies are internationally or even domestically and internationally certified also increases. Hence, companies with an international market focus are generally more certified than domestic companies and companies with an international market focus generally have international or even domestic and international certifications.

Figure 4: correlation spearman’s rho company size (COMSIZE) and certification

Correlations			Certified	Certified2	MARKETFOC
Certified	Correlation Coefficient		1,000	,819**	,329*
	Sig. (2-tailed)		.	,000	,047
	N		37	37	37
Spearman's rho Certified2	Correlation Coefficient		,819**	1,000	,497**
	Sig. (2-tailed)		,000	.	,002
	N		37	37	37
MARKETFOC	Correlation Coefficient		,329*	,497**	1,000
	Sig. (2-tailed)		,047	,002	.
	N		37	37	37

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

### 8.3 CARROLL’S CSR CATEGORIES

The Mann-Whitney test was conducted for the four dimension of responsibility of Carroll for the two market focus groups. The test showed that only the distributions of philanthropic and ethical responsibility were different across the two market focus groups, with a significance of 0.001 and 0.025.

Correlation between market focus and ethical responsibilities: 0.375 spearman’s rho, with a significance of 0.022. Correlation between market focus and philanthropic responsibilities: 0.515 spearman’s rho, with a significance of 0.001. No correlation between market focus and economic responsibilities and market focus and legal responsibilities.

The Mann-Whitney test was conducted for the four dimension of responsibility of Carroll for the two company size groups. The test showed that the distributions of philanthropic, legal and ethical responsibility were different across the two market focus groups, with a significance of 0.036, 0.000 and 0.008.

There was a correlation of 0.683 found between company size and legal responsibilities, with a significance of 0.000. A correlation was also found between company size and ethical responsibilities of 0.436, with a significance of 0.007. Finally, a correlation was found between philanthropic responsibility and company size of 0.351 and with a significance of 0.033. No correlation was found between company size and economic responsibilities.

## 8.4 STAKEHOLDERS

To be able to test the correlation between the influence the stakeholders are regarded to have and the amount of focus a company places on these stakeholders with their responsible business activities the average levels given in the two stakeholder influence questions is used (survey question 10).

Correlation between employee influence and employee activities: 0.373 spearman's rho, with a significance of 0.023. This means that as the influence of employees increases the amount of focus put on employee activities in responsible business practices of companies also increases (figure 5).

Figure 5: correlation spearman's rho test between employee influence and focus on employee activities in responsible business practices

		EMPAVERAGE	EMPAVER	
Spearman's rho	EMPAVERAGE	Correlation Coefficient	1,000	
		Sig. (2-tailed)	,373	
		N	,023	
	EMPAVER	Correlation Coefficient	,373	1,000
		Sig. (2-tailed)	,023	.
		N	37	37

\*. Correlation is significant at the 0.05 level (2-tailed).

No correlation between community influence and community activities: 0.214 spearman's rho, with a significance of 0.204 (figure 6).

Figure 6: correlation spearman's rho test between community influence and focus on community activities in responsible business practices

		COMAVERAGE	COMMAVER	
Spearman's rho	COMAVERAGE	Correlation Coefficient	1,000	
		Sig. (2-tailed)	,214	
		N	,204	
	COMMAVER	Correlation Coefficient	,214	1,000
		Sig. (2-tailed)	,204	.
		N	37	37

No correlation between supplier influence and supplier activities: 0.132 spearman's rho, with a significance of 0.435 (figure 7).

Figure 7: correlation spearman's rho test between supplier influence and focus on supplier activities in responsible business practices

		SUPAVERAGE	SUPPAVER	
Spearman's rho	SUPAVERAGE	Correlation Coefficient	1,000	
		Sig. (2-tailed)	,132	
		N	,435	
	SUPPAVER	Correlation Coefficient	,132	1,000
		Sig. (2-tailed)	,435	.
		N	37	37

Correlation between environmental changes influence and environmental activities: 0.409 spearman's rho, with a significance of 0.012 (figure 8). This means that as the influence of environmental changes increases the amount of focus put on environmental activities in responsible business practices of companies also increases.

Figure 8: correlation spearman's rho test between environmental changes influence and focus on environmental activities in responsible business practices

		ENVAVERAGE	ENVI AVER
Spearman's rho	Correlation Coefficient	1,000	,409
	ENVAVERAGE Sig. (2-tailed)	.	,012
	N	37	37
	Correlation Coefficient	,409	1,000
	ENVI AVER Sig. (2-tailed)	,012	.
	N	37	37

\*. Correlation is significant at the 0.05 level (2-tailed).

Correlation between customer influence and environmental activities: 0.377 spearman's rho, with a significance of 0.022 (figure 9). This means that as the influence of customers increases the amount of focus put on customers in responsible business practices of companies also increases.

Figure 9: correlation spearman's rho test between customer influence and focus on customer activities in responsible business practices

		CUST AVERAGE	CUST AVER
Spearman's rho	Correlation Coefficient	1,000	,377
	CUST AVERAGE Sig. (2-tailed)	.	,022
	N	37	37
	Correlation Coefficient	,377	1,000
	CUST AVER Sig. (2-tailed)	,022	.
	N	37	37

\*. Correlation is significant at the 0.05 level (2-tailed).

Correlation between investor/shareholder influence and shareholder activities: 0.407 spearman's rho, with a significance of 0.012 (figure 10). This means that as the influence of investors/shareholders increases the amount of focus put on investors/shareholders in responsible business practices of companies also increases.

Figure 10: correlation spearman's rho test between investor/shareholder influence and focus on investor/shareholder activities in responsible business practices

		MAN AVERAGE	INVAVER
Spearman's rho	Correlation Coefficient	1,000	,407
	MAN AVERAGE Sig. (2-tailed)	.	,012
	N	37	37
	Correlation Coefficient	,407	1,000
	INVAVER Sig. (2-tailed)	,012	.
	N	37	37

\*. Correlation is significant at the 0.05 level (2-tailed).