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# Corporate Social Responsibility and Sustainable Local Development:

*A case study of European Small and Medium Enterprises (SMEs) in Kenyan Agribusiness*

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# Corporate Social Responsibility and Sustainable Local Development:

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# ABSTRACT

The concept of corporate social responsibility (CSR) over the past decades has grown in importance and significance. It has been the subject of extensive debate within academics and development practitioners who recognize it as a field with the potential of reducing poverty and enhancing sustainable development in third world countries. As important as this concept is, foreign investors particularly in agribusiness are strongly encouraged to be more economic, social and environmentally responsible. This research investigates how responsible businesses are practiced by European SMEs in Kenyan agribusiness and how their practices contribute to sustainable local development in Kenya. Also, the study examined whether these European companies complied with responsible business practices by looking at their socioeconomic and environmental commitments and the factors that drive their responsible business behavior. In doing so the study resorted to the use of mixed methodology (surveys and interviews). Mixed methodology in this research severed as complementary methods and enable the study to consolidate strengths and cross-check and triangulate any information that were central to research questions.

The study results revealed that European entrepreneurs are engaged in responsible business practices in a variety of ways which have a positive impact on sustainable local development of the local communities within which the enterprises operate. These responsible practices were centered on employees' well-being, community involvement, environmental protection and customer and suppliers relation. On the environmental development, the negatives seem to outweigh the positives although there are some who think the other way. But, from a socio-economic perspective, the positives far outweigh the negatives. The socio-economic development impacts include: the creation of productive and decent jobs that supports the socio-economic needs and aspirations of local people and their societies. Also European investment promote growth, knowledge transfer and technology advancement, skills, capacity and standards improvement, access to new markets by domestic companies, the prospects for further FDI investments and poverty reduction. The research findings also suggested that as a result of increasing demand by consumers, government institutions and relevant stakeholders on standards of products, certification labels motivate companies to be more responsible.

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| | |
|---|---|
| AGOA | African Growth Opportunity Act |
| ASDS | Agriculture Sector Development Strategy |
| BOPP | British Ornamental Plants Producers Association |
| BRC | British Retail Consortium |
| BSCI | Business Social Compliance Initiative |
| CIA | Central Intelligence Agency |
| CO2 | Carbon dioxide |
| CSR | Corporate Social Responsibility |
| EAC | East African Community |
| EFQM | European Foundation for Quality Management |
| EPZ | Export Promotions Zones |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FFP | Fair Flower Fair Plants |
| GAP | Good Agriculture Practices |
| GDP | Gross Domestic Product |
| GTZ | German Federal Enterprise for International Cooperation |
| HCDA | Horticulture Crop Development Authority |
| HIV/AIDS | Human Immune Virus/ Acquired Immune Deficiency Syndrome |
| ICT | Information and Communication Technology |
| IDS | International Development Studies |
| IFC | International Finance Cooperation |
| ILO | International Labour Organization |
| ISO | International Organization for Standardization |
| KCC | Kenya Cooperative Creameries |
| KEBS | Kenya Bureau of Standards |
| KES | Kenyan Shilling |
| KFC | Kenya Flower Council |
| KHCP | Kenya Horticulture Competitiveness Project |

| | |
|---|---|
| KPMG | Klynveld Peat Marwick Goerdeler |
| LED | Light-emitting Diode |
| LNGG | Lake Naivashe Growers Group |
| LPO | Local Purchase Order |
| MNEs | Multinational Enterprises |
| MPS | Milieu Project Sierteeil |
| NEMA | National Environmental Management Authority |
| NGO | Non-governmental Organization |
| NHIF | National Hospital Insurance Fund |
| NSSF | National Social Security Fund |
| OECD | Organization for Economic Co-operation and Development |
| SDP | Smallholder Dairy Project |
| SLAREA | Strengthening Labour Relations in East Africa |
| SMEs | Small and Medium Enterprises |
| TBL | Triple Bottom Line |
| TNCs | Transnational Companies |
| UAE | United Arab Emirates |
| UK | United Kingdom |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| US | United States |
| USAID | United States Agency for International Development |
| VAT | Value Added Tax |
| WBCSD | World Business Council for Sustainable Development |
| WTO | World Trade Organization |

# Chapter One

The aim of this chapter is to provide information on the theoretical background of the study, the scientific and developmental significance of the research, the research objectives and questions, a conceptual framework on which the research is built, and the outline of the thesis.

## 1.1. Introduction to the Study

The current trend of globalization has led to negative impacts such as: continued rising social inequalities, increasing differences in income, the development of global environmental problems and the outsourcing of skilled operations to developing countries. Beside these negative influences, globalization has also resulted in significant amount of financial transactions crossing regional and international borders. Transnational companies are engaged in investment and relocation of their companies' operations to more efficient countries making Foreign Direct Investment (FDI) a key factor in global economic integration and the internationalization of business. Sub-Saharan Africa is one continent that has received a large amount of foreign investment within the last two decades recording about US$ 87.65 billion of FDI inflow in 2008 alone (Wilson 2009, UNCTAD, 2008). FDI is considered advantageous not only because it brings in much needed capital, but it also creates employment and contributes to enhanced economic growth and influences economic policies of many Sub-Saharan African countries to focus more on improving conditions for FDI inflows. These policies and reform mostly include; liberalization of domestic markets, privatization, and tax reforms, and the withdrawal of government from local economic development (social economic and environmental) (Wilson 2009).

According to Javorcik (2004), many governments and policy makers in developing and transitional countries focus more in attracting FDI and transnational companies hoping that FDI inflows will lead to much-needed capital resources, new technologies, marketing techniques and management skills. Multinational firms are presumed to have inherent advantage of increasing productivity and competitiveness of local companies through technological transfer and spillovers. It is often hoped that FDI inflows will go beyond the real projects embarked on by foreign investors and through knowledge spillovers, benefit the firms in the home country. It is further argued that the presence of more efficient foreign firms in an industry may increase competition in domestic industries as foreign firms tend to colonize industries where the initial cost of entry is high. They may also break up domestic monopolies by lowering excess profits and generally improving allocative efficiency. Additionally, local industries stand the chance of improving their productivity by embracing new technologies from foreign investors. As these foreign companies may not be able to internalize all the gains of their technology and domestic firms may benefit through their contact with multinationals businesses either as local suppliers, consumers or competitors (Javorcik, 2004, Waldkirch & Ofosu 2009). On the other hand, entry of foreign firms may have negative impacts such as; crowding out domestic firms, reducing their scale and productivity; foreign firms may also attract the most competent workers, leaving less skilled ones for domestic firms. And also indirectly, the increased competition in an industry may drive domestic firms to exit, leaving the aggregate demand for labor uncertain (Waldkirch & Ofosu 2009).

However, the shrinking roles of national and local governments to deal with complex socioeconomic matters in local communities leads to the question of, who is going to take the role of providing and protecting socio-economic and environmental issues related to sustainable local development? This is where the concept of corporate social responsibility (CSR) arises. According to Idemudia (2011), businesses are gradually considered to have a responsibility that goes beyond making profit for their investors, towards the societies and the environment in which they operate and help solve socio-economic and environmental problems. This idea of being responsible as the major business activity of companies has received much attention from the private and public sector, NGOs and global organizations such as the United Nations (UN), Organization for Economic Co-operation and Development (OECD), and other stakeholders. The general agreement is that responsible business activities can offer significant opportunities for development for both the company and the society in which it operates namely poverty reduction and other forms of social development. Herrmann (2004) argued that the premise of corporate responsibility movement in recent years is that companies, assumed to be the majority institutions on earth, must squarely face and address the social and environmental problems that afflict humankind as a result of their operations. As a mode of addressing labour rights, and environmental standards, responsible business has long been discussed as a possible solution to the inequalities created and exacerbated by globalization and traditionally centered on multinational enterprises (MNEs) of the developed world. Corporate responsibility of companies is increasingly viewed as a bridge linking businesses and profit making with economic, social and environmental development (Blowfield & Frynas, 2005). Consequently corporations are being pressure to take responsibility for their socio-economic and environmental impacts on communities, within which they operate. Hence more enterprises in developing countries are strongly embracing corporate responsibility, some being purely on voluntarily basis, others being forced by laws or certification, whiles others are due to the prospect of enhancing financial profits and growth. Whatever the motivation is, unlike in the developed world where CSR has been practiced and implemented by firms with much research on responsible business, there is a great lack of research on what determines responsible behaviour in the Third World. (Gilbert 2008, Gugler & Shi Jacylyn 2009).

This research partly builds upon two previous researches conducted. One; the study conducted by International Development Studies (IDS) Group (2013) with the aim of understanding how Dutch SMEs in Kenya agro-sector contributes to sustainable and equitable local development by incorporating CSR practices in their business models and activities. Two: the research conducted in 2012 by IDS student of Utrecht University focusing on how responsible business is practiced by Dutch enterprises operational in Kenyan agribusiness. As a buildup, this research therefore seeks to investigate how responsible business is practiced by Non-Dutch European Small and Medium Enterprises (SMEs) in Kenyan agribusiness and see how these practices contribute to sustainable local development. Specific focus was on the characteristics of European SMEs, how their performance matches with CSR criteria, and what role certification schemes play in their performance. Also in the research is, what factors influence the responsible business behavior of European SMEs, and to what extent do the operations of European SMEs contribute to sustainable local development in Kenya, mindful of the fact that 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.

## 1.2. Significance of Study

In Kenya, agriculture contributes about 25% of gross domestic product (GDP) and provides a livelihood to three-quarters of the population. The horticultural crops subsectors are important foreign exchange earners. According to available data, fruits and vegetables accounted for US$ 490 million of export earnings in 2010. Also since the 1990s, foreign investment has enabled the industry to acquire new technologies, upgrade quality control and improve infrastructure. As a result, exports of cut flowers reached US$ 670 million in 2010 representing about 25% of the EU's imports (UNCTAD 2012). Therefore the research in Kenya will have significant development and scientific relevance based on the importance of agribusiness and role of European investors.

The most important intent of this research is to contribute to the growing body of literature on CSR in developing countries, particularly Africa. Further still, as little research exists concerning CSR in Kenya, this study attempts to fill this knowledge gap by providing a comprehensive insight into the current CSR performance of companies particularly, foreign SMEs in the agribusiness. This has become necessary because it is unknown whether responsible business among European SMEs is being implemented broadly, whether it takes the form of a construct consistent with CSR criteria from the West, or whether it plainly discourses local needs and concerns. Furthermore, focusing mainly on the performance of European SMEs in the agribusiness, the research will provide first hand empirical knowledge on responsible business operations of SMEs in the agribusiness and how it contributes to sustainable local development. Moreover, greater understanding of our business surroundings and how they operate is essential for effective decision and policy making with regards to sustainability. Thus the research agenda of increasing knowledge on CSR in Kenya can be used by various stakeholders in the society as source of secondary data for further research.

## 1.3. Research Objectives

In Kenya, responsible business has received increased attention during the last decade. As the country is economically growing and has obtained a measure of economic position internationally, foreign companies are deemed to contribute to the further economic growth, and also create some social and environmental problems in Kenya. This is practically true in agribusiness, and more specifically in the horticulture sector, where many foreign investors are active. The horticulture sector contributes a lot to the country's GDP growth- around 29%, and because the sector mainly produces for the international market, it is increasingly exposed to international standardization

(Government of Kenya 2012). The objective of this research was to specifically investigate how responsible business is practiced by European SMEs in Kenyan agribusiness and how these practices contribute to sustainable local development. Also, the study assessed whether these European companies participating in the study complied with responsible business practices by looking at their socioeconomic and environmental commitments and the factors that drive their responsible business behavior. The research also examined the extent to which their corporate responsibility contributes to sustainable local development in Kenya.

## 1.4. Research Questions

The fundamental research question to explore this study is as follows:

*What is the performance of European SMEs in Agribusiness in Kenya in terms of responsible business behaviour and to what extent do they contribute to sustainable local development?*

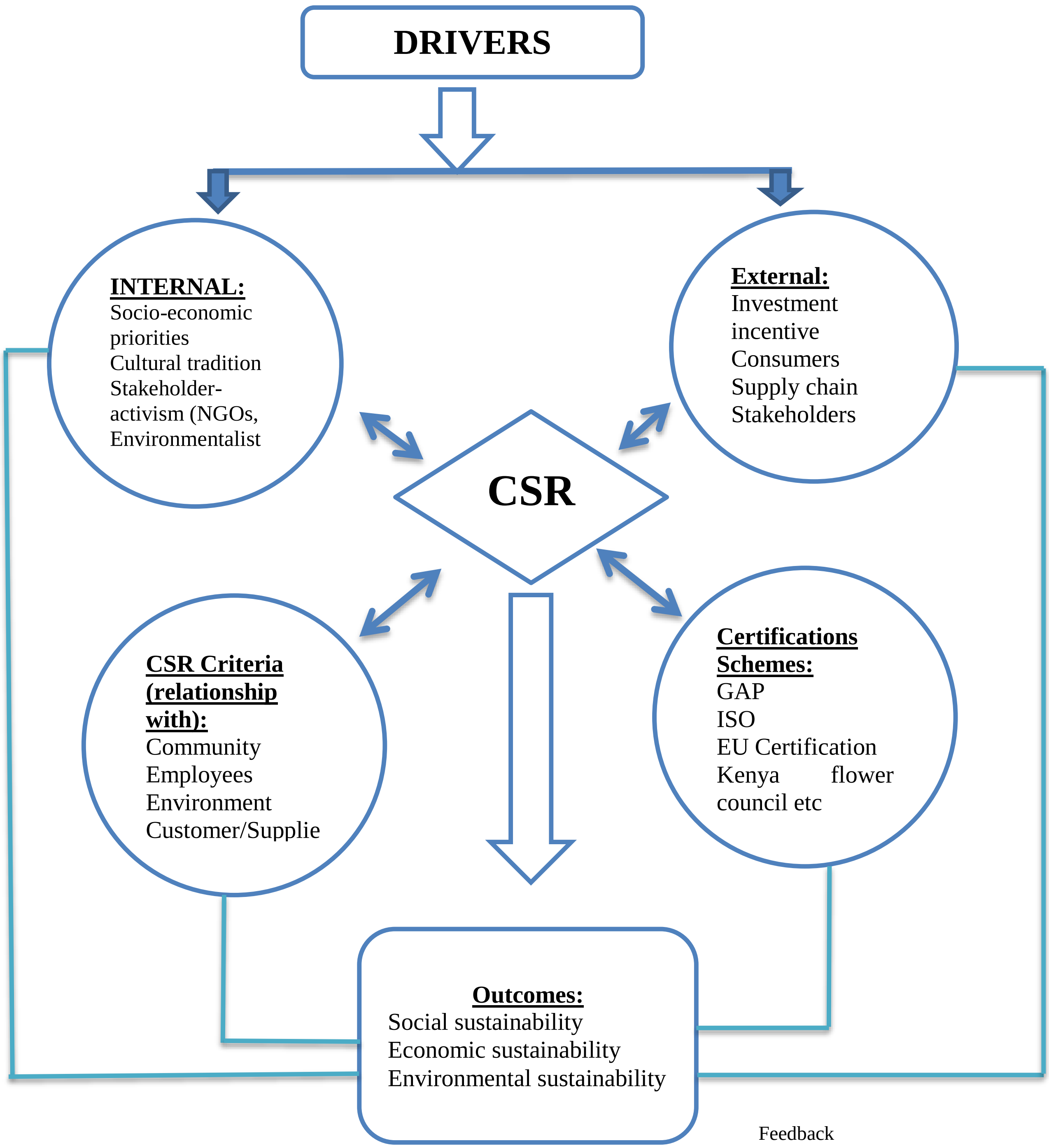
***Sub- questions:***

- ❖ What are the characteristics of European SMEs in Kenyan agribusiness?
- ❖ To what extent does the performance of European SMEs match with CSR criteria?
- ❖ What is the role of certification schemes in the performance of European SMEs?
- ❖ What factors are the drivers of responsible business behaviour of European SMEs?
- ❖ How and to what extent does European SMEs contribute to sustainable local development?

## 1.5. Conceptual Model

The conceptual model presented below visualizes the main concepts that are central to the research questions. The model illustrates the relationships between the different factors that influence responsible business behavior. It comprised of five (5) parts that are well fitted together. The first two are the internal and external drivers that influence the operations of European companies drawing on the ten major drivers for CSR in developing countries identified by Visser (2008). These drives are explained further in the subsequent chapter. Aware that CSR is not unique to developing countries, the third part illustrates the factors unique to Kenya- certification schemes which impacts on the responsible practices of European SMEs. Fourth in the model are the main criteria of CSR which companies endeavor to comply. The combinations of these four concepts results into the fifth- the outcomes. The fifth factor is the bench mark used for measuring responsible business by European SMEs operation in Kenya agribusiness.

**Fig. 1: Conceptual Framework**



*Economic responsibility*

Economic responsibility consist of understanding the economic impacts of the company's operations such as: integrity, corporate governance, economic development of the community, prevention of all sort of inducement and corruption, payment of tax to national and local authorities, use of local resource, hiring local workers, which ensures the provision of employment opportunities, good working conditions, person funds and others (Baah & Tawiah 2011). Visser (2006) CSR research in Africa drew a similar conclusion that multinational cooperation's in transitional economics are valued by policy makers and the communities in which they operate because of their role in jobs creation and poverty reduction.

*Social responsibility*

Social responsibility is the newest of the three dimensions of corporate responsibility which is getting more attention than it previously had. Many businesses are becoming increasingly active in addressing social concerns as a means of being accountable for the social effects the company has on people even indirectly. Companies are advice to include social responsibility such as; labour laws, employee's rights and responsibilities, capacity building for both employees and local communities, and community support programmes in to their business responsible plan (Uddin et al 2008; Baah & Tawiah, 2011). Uddin et al added that social responsibility to employees should extends beyond terms and conditions of the formal contract of employment to include- their skills and motivation for the work and responsibility towards community of operation.

*Environmental and Ecological responsibility*

According to Uddin et al (2006) and Baah and Tawiah (2011), environmental concern and sustainable development constitute a key pillar of responsible business, making it an important topic of discussion in the past three decades in the business environment. Environmental responsibility is a preventive approach adopted by firms to prevent or minimize various forms of impacts, provide assistance for initiatives that promote better environmental responsibility, and developing and diffusing environmentally friendly technologies. They advocated further that since the operational activities of businesses might result in negative effects occurring in the surrounding natural environment and the community as a whole, companies should be careful to avoid impacts that may include: misuse of natural, non-renewable resources, increase pollution and waste, degeneration of biodiversity, climate change, deforestation(Uddin et al 2006 Baah & Tawiah 2011).

## 1.6. Outline of Thesis

**1. Introduction**

Chapter one provides information on the theoretical background of the study, the scientific and developmental significance of the research, the research objectives and questions, a conceptual framework on which the research is built and the outline of the thesis.

**2. Theoretical Framework**

This chapter highlights literature on the main discussions and concepts concerning CSR: the history and development of CSR during the last two decades. It also provided an overview of different theoretical conceptualizations and framework in the field of responsible business, sustainable development and entrepreneurship and links the theoretical findings to the empirical study.

**3. Thematic and geographical context of Kenya**

Chapter three serves as an introduction to the regional background of the study focusing on the local/regional economic development, entrepreneurship, political economy and socio-economic situation in Kenya.

**4. Methodology**

This section presents the methodology used in the study. This includes the research process, research strategies, data collection techniques and analysis which were employed in the research. This chapter also covers the operationalization of the various concepts employed in the research and the limitations of the study.

**5. Empirical findings**

This chapter presents the research findings that were gathered from the field based on the survey and in-depth interviews conducted during the period of the study. The chapter is in two parts. Part one is general introduction to the characteristics of European SMEs in Kenya agribusiness, which includes; ownership, sector of operations, products and services, and management. The second part tackles sector specific of European enterprises operations in the agribusiness.

**6. Analysis and discussions**

The chapter closely examined the social, economic and environmental responsibilities and how these impacts on the lives of local people and contributes to their local development. Also in this chapter is a discussion of the role of certifications scheme on responsible business performance and the factors driving this business responsibility.

**7.Recommendations and conclusion**

# Chapter Two

## Theoretical framework

Corporate Social Responsibility is increasingly becoming an important part of the business environment. The past two decades have witness a drastic shift in the relationship between business and society. The main driving forces of this change have been as a result of international trade, raise in power and influence of businesses, the reshaping of government institutions and the high demands from stakeholders for companies to act more responsible. The relationship between companies and civil society organizations has shifted from patriarchal philanthropy to a re-examination of the roles, rights and responsibilities of business in society (Raynard & Forstater 2002). This chapter provides literature on the main discussions and concepts concerning CSR put forward in international and national (Kenya) literature over the last periods. It also provides an overview of different theoretical conceptualizations and framework in the field of responsible business, sustainable development and entrepreneurship.

### 2.1. Historical Evolution and Scope of Corporate Social Responsibility

Responsible business is a broad topic that covers a multitude of concepts and ideas encompassed in many definitions, all depending upon the country-of-origin and the originating organization or author. In academic literature, CSR is cited as a widely recognized topic within academic research, whose acceptance has increased over the last three decades (Carroll & Shabana 2010). Historically, the appearance of CSR in academic literature has a longer history. CSR was first mentioned in monographs in 1926 by Clark who noted that business has obligations to society. Although mention had been made of businessmen being responsible for others in the community in the 1920s, the first article to discussed CSR looks at the responsibilities of corporate managers as trustees in providing *"safety, security, or means of support for that part of the community unable to earn its living in the normal channels of work or trade"* (Berle, 1932, cited in Freeman & Hasnaoui 2011). According to Freema & Hasnaoui (2011) it is not until Bowen's (1953) influential book- *Social Responsibilities of the Businessman* that responsible business became the object of significant academic interest. Subsequent articles use terms as philanthropy and ''prudent management'' or ''corporate support payments''.  Freeman & Hasnaoui further asserted that the primary focus of CSR was on businesses responsibilities to society and doing good works for society. As the 1960s transitioned into the 1970s and beyond, particular emphasis in the CSR concept evolved primarily through the academic contributions in the literature and the slowly emerging realities of business practice (Carroll & Shabana 2010).

The epoch of global corporate citizenship in the 2000s marked the beginning of a new phase in the corporate world. The business community became fascinated with the notion of sustainability or sustainable development, and this theme became an integral part of all CSR discussions (Carroll & Shabana 2010). According to Visser (2011) the field of what is mostly referred to as responsible business, sustainability, corporate citizenship and business ethics is leading a new era in the relationship between business and society. And there is a shift from the old concept of CSR 1.0 to a new integrated conception of CSR 2.0, and this has become necessary as the world is more connected and global challenges like climate change and poverty loom ever large. The new dimensions of responsible business Visser (2011) stated are characterized by: innovative businesses, stakeholder consultation, a shift in power relation form centralized to decentralized, and a shift from mainstream responsible business practices to shared value.

The concept of shared value as a form of responsible business was also echoed by Porter and Kramer (2011). They reasoned 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 runs. This can be done by considering new products and markets like targeting the poorest of the poor (base of the pyramid), targeting different stakeholders in the value chain, by focusing on resource management, water management, working condition, health and safety of employees, and by supporting local cluster development in the form of partnerships (Porter and Kramer, 2011).

## 2.2. Defining Corporate Social Responsibility

Corporate Social Responsibility (CSR) has been dichotomized into many components by many authors each with a different agenda. These terminology consist of inclusive terms such as corporate responsibility, corporate citizenship, corporate sustainability, corporate governance and corporate social performance (Freeman and Hasnaoui 2011). This has also generated numerous definitions of CSR introduced by various practitioner and quasi-practitioner groups. A recent study by Dahlsrud (2006) identified 37 definitions of CSR. The lack of clarity or inclusive languages among academic authors, many companies, and civil society has also led to CSR being defined in many ways ranging from the limited economic perspective of creating profit for shareholders, to broader concept of enterprises adding value to a country's development as a core business (Jamali, 2008; Gilbert, 2008; Freeman & Hasnaoui 2011 and Heemskerk2012). But Freeman & Hasnaoui (2011) noted that almost all contemporary conceptual definition of CSR include either some or all of these phrases: legal, ethical, economic concepts, environmental ethics, social and human rights, cultural, stakeholder, and voluntariness. For instance, according to the World Business Council for Sustainable Development, responsible business is: *"The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*"(WBCSD 2001). Also, the European Commission defines CSR as: *"Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders"* EU Green Paper (2001).

While there is no universally accepted definition and the lack of clarity or inclusionary terms among academic authors (Freeman & Hasnaoui 2011), in this research the term CSR is used as an umbrella term incorporating other similar terms related to business, society and the environment. And for the purpose of this research corporate social responsibility 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, 2006).*

**Table 1: Summary of CSR Definitions**

| Organization/Author | Definition |
|---|---|
| **World Business Council for Sustainable Development(2001)** | *"The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".* |
| **EU Green Paper (2001)** | *"Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders"* |
| **Visser, (2011)** | *''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"* |

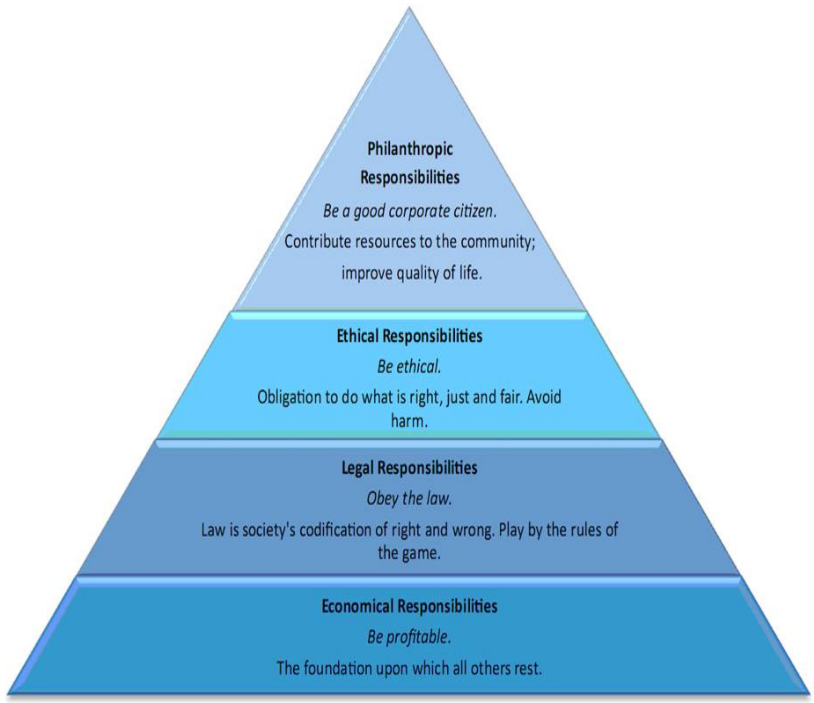
## 2.3. Classifications of Corporate Social Responsibility

The concept of responsible business behaviour can and has been characterized in many ways and up until now, there has not been a generally accepted way of categorizing responsible business by academics. However, in this study, responsible business is categorized based on Carroll's (1991) CSR pyramid model and the "implicit" versus the "explicit" CSR model by Matten & Moon (2008).

### 2.3.1. The pyramid of Corporate Social Responsibility

In 1991, Carroll introduced a model of CSR that distinguishes four dimensions of responsibility that a business is regarded to cover (Carroll 1991). According to Baah & Tawiah (2011), Carroll's CSR pyramid is designed in a way that it covers all the four criteria of responsible business- "economic, legal, ethical (social) and philanthropic". Economic responsibility is the most important and at the base of the pyramid, followed by the legal, ethical and philanthropic at the top of the pyramid. The illustration of Carroll's pyramid of social responsibilities is shown in figure 2.

**Figure 2: Carroll's CSR Pyramid**




Source: Carroll 1991 with modifications

According to Carroll (1991), the economic component which is at the base of the pyramid receives high priority to economic performance serving as the main pillar of the other components of the pyramid. He argued that companies must endeavor to make profits, as shareholders always look forward to these profits as returns from their investment. But making profits in a more responsible manner.  Second on the pyramid is the legal responsibility which calls on companies to obey society's laws and "play by the rules of the game". Next to legal responsibility is ethical responsibility which entreaty organizations to do what is "right, just, fair and avoid any harm" (Carroll 1991). The last on Carroll's pyramid is the philanthropic responsibility which according to Carroll (1991) are "*the things the local people look forward for from the companies and, expecting them to contribute resources for the development of society and improve the quality of life" (*Carroll 1991, Baah & Tawiah 2011).

Although Carroll's pyramid has been widely applied, the relevance and applicability of the pyramid have often been called into question as to whether it is globally applicable. For example Visser (2006), tested Carroll's pyramid in the context of African businesses and came to the conclusion that the order of the responsibility layers differ in Africa. In Visser's (2006) outcome is that, the economic responsibility still gets most emphasis; however, philanthropic responsibility is given second highest importance, followed by legal and lastly ethical responsibilities. He argued that economic responsibility of companies is considered most important because African countries suffer from poverty, external debts, and high unemployment rates. This economic situation explains why philanthropic responsibility is regarded the second most important layer instead of the last (Visser, 2006).

### 2.3.2. Implicit versus Explicit Corporate Social Responsibility

According to Matten and Moon (2008) the conceptual framework for understanding responsible business can be categorized in "implicit" and "explicit" CSR. Explicit CSR consists of corporate principles with the goal of being responsible for the sake of the society within which the organization operates. These are generally less organized and may, consist of voluntary, self-interest driven CSR policies and strategies. The point remains that explicit CSR rests on corporate will, rather than reflecting the interest of any governmental authority or any larger formal or informal institutions. On the other hand, implicit is the opposite of explicit, it consist of the various laws and regulations within a country that clearly defines and agreed on some code of conducts as being responsible and admonish companies to adhere to such codes. These codes and standards are areas the institutions within the country consider as more important. According to Matten and Moon (2008) the basis for these classifications is based on two reasons:

- the language corporations use in addressing their relation to society: companies practicing explicit responsible business use the language of CSR in communicating their policies and practices to their stakeholders, whereas those practicing implicit CSR normally do not describe their activities this way.
- firms practicing implicit CSR might conduct practices similar to those of corporations practice explicit CSR.

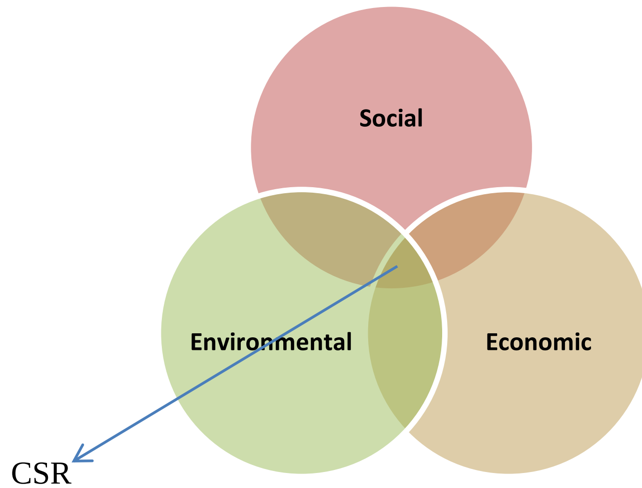
Implicit CSR however, is not conceived of as a voluntary and deliberate corporate decision but, rather, as a reaction to, or reflection of a business institutional environment whereas explicit responsibility on the other hand, is the result of a careful, voluntary, and often strategic decision of a corporation. This concept perfectly echoes the nature of responsible business practices in Africa apprehended by Visser (2006). According to him, CSR in Africa tends to be less formalized or institutionalized, and that there are hardly CSR codes, standards, management systems and reports. Where there are formal CSR codes, the standards and guideline tend to be issue specific for example: fair trade, supply chain, HIV/AIDS or sector-led such as; education, health, sports, community development, the environment, and other services.

## 2.4. Criteria of Corporate Social Responsibility

Apparently, it is impossible to draw up a definitive list of issues and policies, which constitute CSR as these differ from company to company and can shift over time (Raynard & Forstater 2002). But the goal of social responsibility of organizations is to make corporate business activity and corporate culture sustainable in three aspects and the three most commonly mentioned ones are (1) social, (2) environmental and (3) economic dimension which are all together also described as the Triple Bottom Line (TBL) or the famous ‘three P’s’ (People, Planet, Profit). This concept of sustainability is generally regarded as having emerged from the environmental perspective in which sustainability refers to “how resources are effectively manage and conserved for the future use” (Brundtland report, 1987). Economic sustainability within this scholastic thinking is about the economic performance of the organization itself and how its operations influence the larger community of which the company is part. The social sustainability component deals with the issues of social justice and labour rights. (Archel, et al., 2008; Baah and Tawiah 2011, Fauzi et al., 2010, EFQM 2004).

Albareda et al (2007) however pointed out that beside these three criteria, the consideration of all relevant stakeholders within each field of influence is of vital importance. But the question is which stakeholders can and should be included in the planning and strategy application process. This according to Albareda et al (2007) is however a very controversially discussed topic and one that is difficult to be answered. Freeman (1984) in his publication of *“Strategic Management: a stakeholder approach”* argues that responsible business should take into account internal and external groups that influence and are influenced by the company’s operations. These stakeholders can be groups at the local, national and global level that have some sort of stake in the company's business operations. For instance, workers, local communities, the environmentalist, suppliers, customers, national government, NGOs, international institutes (UN), and partnerships all have a stake about the activities of companies. The figure below illustrates the key criteria of responsible business according to EFQM – social, environmental and economic – and how they link and also overlap. These three measurements are consistent with the three principles of the Triple Bottom Line: people, planet and profit (Baah and Tawiah 2011 EFQM 2004).

**Figure 3: CSR dimensions**
The three criteria of responsible business




"Triple bottom line" performance (Economic, Environment and Social).

## 2.5. Drivers of Corporate Social Responsibility

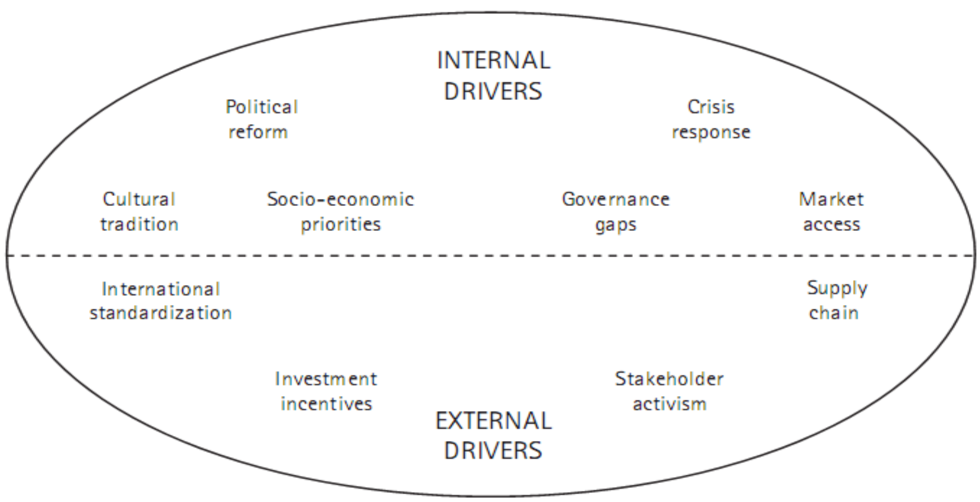
The central question of what makes CSR in developing countries different from its typical expression in the developed world, championed by America and Europe is the various drivers of responsible business in developing world. Although they are not all unique to developing economics together they build up a distinguishing picture of how CSR is conceived, envisage, and practiced in emerging economies (Visser 2008). According to Liomi (2002) quoted in Baah and Tawiah(2011), the major drivers of responsible in developed economies are largely grouped in to two- "internal and external factors". The external factors according to Liomi (2002) includes;

- globalization
- global environmental challenges
- the international initiatives taken by the business societies to deal with sustainability issues

- political actions in governments which influence sustainability and management guidelines pressures from the investment community
- pressure from NGOs (non-governmental organizations)
- the media.

On the other hand, the internal drivers he identified in his study as: risk management and brand value, revenues and costs, pressure from employees, customers, and competitive advantage. Whereas employees have direct control over the internal drivers and can be active in that regard, the same cannot be applied to the external drivers. Hence, external drivers tend to be reactive in that regard. In the same way, Visser's (2008) study of CSR in developing countries, came out with ten major drivers that are associated with how responsible business is perceived and practiced in third world countries. These he subdivided in to internal and external drivers just as in Loimi (2002). The internal drivers refer to pressures from within the country, and external drivers they tend to have a global origin.

**Figure 4: Drivers of CSR in Developing countries**




Source: Visser 2008

## 2.6. Corporate Social Responsibility and Sustainable Development Debate

According to Loew et al (2004) the concept of sustainable development emerged from the environmental protection debate and gained political level establishment as a guide line principles for society at the UN Earth Summit in Rio de Janeiro in 1992, and by the mid-1990s it became a concept for business. The concepts of CSR and the principle of sustainable development as it is understood today is frequently traced back to the definition given by the Brundtland Commission:

sustainable development is, “*a form of development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (Brundtland Report 1987).The commission emphasized that social, ecological and economic concerns, must be given equal consideration if sustainable development is to become a reality (Loew et al 2004).

As companies are increasingly portrayed as part of the solution to the development of third-world countries, CSR initiatives are seen as the bridge linking the areas of business and development (Heemskerk 2012). However, many development practitioners and academics are concerned about the lack of empirical evidence supporting this claim thus creating two groups to the CSR sustainability debate – those who see CSR leading towards sustainable development and those who see it as having a negative influence on development (Sagebien & Whellams, 2010). According to Carroll and Shabana (2010), skeptic view of CSR typically begins with the classical economic argument who hold the view that management has one responsibility and that is to maximize profits for its owners or shareholders and social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system. The opponents of CSR and sustainable development further claimed that business has a key weakness that needs changing as CSR 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 focused on short-term responsibility demands and solutions (Sagebien & Whellams, 2010 Heemskerk 2012).

Proponents however argued that well-implemented and strongly enforced CSR policy is key to sustainable development as CSR is a comprehensive notion that takes into account the socioeconomic and environmental concerns of the local as well as protecting the business organization if they “play by the rules of the game”(Carroll 1991, Herrmann 2004 ). Most often, because entrepreneurs are quite aware that their business decisions have a wider implication and extends beyond the boundaries of the company operations, they tend to fact in concerns of how their business decisions will affect other stakeholders such as; workers, customers, suppliers, the community as well as the environment. Therefore in the long run, a well implemented responsible business plan according to advocates of CSR and sustainable development with all stakeholders on board will lead to improvement in the quality of life of local people. It will further leads to empowerment of communities to care for their own environments, and livelihood (Herrmann 2004). Sagebien & Whellams (2010) however noted that three interrelated factors make it difficult to prove whether CSR 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 CSR and too little attention to the benefits in the local context. Third, there is limited focus on empirical research agenda on the real impact of CSR on local sustainable development.

## 2.7. Sustainable Development and Entrepreneurship

According to Voigt (2009), if all the challenges of contemporary society, which are separately addressed by various regimes, are to be met, some kind of overarching objective needs to be in place that sketches out a global and long-term picture of our world and helps to coordinate the fragmented attempts. This unifying factor Voigt (2009) identified to be embraced in the notion of sustainability development. This is because sustainable development, which addresses the need to balance and coordinate widely divergent collective interests, while protecting the regenerative capacity of the biosphere, has been accepted as "the way forward for a healthy planet". The discussions around the concept of sustainable entrepreneurship has emerged in the past years with entrepreneurs and business ventures increasingly being held up as a remedy for many social and environmental concerns (Hall et al., 2010).

Schmidpeter et al (2014) noted that viewing enterprises as part of the solution and not as part of the problem is a big opportunity within the current crisis and presumably the only chance to sustainable entrepreneurship. They argued that an integrated view on economic, social and ecological questions, instead of playing them off against each other as isolated issues is where the strength of the current discussion of sustainable entrepreneurship lies; wherein a new productive view on the contribution of corporate responsibility to both one's own business and social progress takes form. Schmidpeter et al (2014) further pointed out that sustainable entrepreneurship is based on the assumption that entrepreneurship can only be reconstructed adequately if both the individual component of 'profit' (business case) and the social role of "create added value for society" (social case) of the enterprise are considered equally. Sustainable entrepreneurship then has the goal to create added value for both society and the enterprise itself. And the necessary new problem-solving approaches require entrepreneurial innovation as it is evident that sustainable entrepreneurship is much more than mere compliance. Schmidpeter et al (2014).

The bottom line of this discussion of sustainable development and entrepreneurship is that businesses are no longer seeking short term profits regardless of the social and environmental consequences of their activities but longer term profits and general acceptance in to the environment in which they operate. Thus companies view themselves as part of society with rights and also important responsibilities towards the society and the natural environment in which they function. Thus this concept is useful for research analysis of the findings that will follow in the next chapters as the research objective is to specifically investigate how responsible business practiced by European Small and Medium Enterprises (SMEs) in Kenya contribute to sustainable local development.

# Chapter Three

## Thematic and geographical context of Kenya

This chapter provides information on the thematic and geographical context of the study focusing on the local/regional economic development, entrepreneurship, political economy and socio-economic situation in Kenya. It is important to note that most of the materials in this chapter is from KPMG report (2012).

### 3.1. Demographic Characteristics

Formally called British East Africa, Kenya according to KPMG (2012 report) "*became a British protectorate in 1890 and a crown colony in 1920*" and subsequently attained its independence in 1963. Geographically the country is located along the cost of East Africa of the Indian Ocean. Countries adjoining Kenya are: to the southern border is Tanzania, to the north is Ethiopia, Somalia to the east, and to the west lies Uganda. To the northeastern corner is the newly independent nation of south Sudan. In the north of Kenya the land is arid, while within the southwestern corner lies the fertile Lake Victoria Basin. The Great Rift Valley separates western highlands of Kenya from those that rise from the lowland coastal strip. The climate varies from 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 abundant availability of water due to the many lakes, make Kenya the ideal location for agricultural activities (Heemskerk 2012, KPMG 2012).

Kenya has an estimated population of 43,013,341 as at July 2012. The diverse population includes most major ethnic and linguistic groups of Africa. It is estimated that there are over 40 distinct ethnic groups in Kenya and divided into three broad linguistic groups: Bantu, Nilotic and Cushite. The five largest ethnic groups in Kenya are – Kikuyu, Luo, Luhya, Kamba and Kalenjin. These five account for 70% of Kenya's citizens.

**Figure 5: Map of Kenya**


Source: CIA World fact book, 2013.

## 3.2. Government and Institutions

Officially called Republic of Kenya and a Unitary Republic form of state, Kenya gained independence from British rule in 1963, under the leadership of Jomo Kenyatta as the first president. Historically, the political system of Kenya was based on that of their former colonial masters- the British common law as well as their 1963 constitution. However, this system of government changed in 2010 when Kenya through a referendum ratified a new constitution which came in to force after the 2012 general election. In the new political system, "*the national legislation also known as Unicameral National Assembly is made up of 210 elected legislators, with 12 nominated persons including the Attorney-General and the speaker*"(KPMG 2012 report). After a long period of one party rule under Daniel Arap Moi, democratic election system came in to existence in 1990 allowing multiparty form of government. In Kenya, voting for presidency and other legislatives members are held every five years during which the people elect the president directly through a simple majority. The December 2007 elections however resulted into civil unrest and violence due to the claim of electoral fraud by the opposition party. This chaos severely damaged Kenya's status as a politically stable country (KPMG 2012 report, Heemskerk 2012).

To promote transparency and government accountability as a way of attracting FDI, the then president of Kenya Mwai Kibaki introduced a lot of government reforms in 2003 including the passage of *"the Anti-Corruption and Economic Crimes Act, the Public Officers Ethics Act, the Public Procurement and Disposal Act*" (KPMG 2012 report). These new laws especially the Ethics Act demanded that some civil servants mostly those appointed by the government and those in higher public offices to openly disclose their properties and that of the wives within 3 months of assuming public office. Also the Public Procurement and Disposal Act, required that a commission be set up to oversee all procurement matters. But this law since its establishment has done very little to reduce the constant abuse of public position by civil servants in matters of procurement (KPMG 2012 report). These various institutions and organizations in Kenya have been set up to expedite investments of foreign entrepreneurs, but interview with the European investors indicated that only a few entrepreneurs made used of such facilities. The majority of investors that did not use these institutions cited corruption scandals as the reason they are not able to make use of the institutions.

Kenya's laws generally contain provisions that safeguard workers' rights and mechanisms to address complaints of their violation. There are laws in place to address for instance healthy working conditions, maximum working hours, minimum wage, and workers' rights. For example, in 2007, the International Labour Organization (ILO) in collaboration with the United States Labour department under the project-"Strengthening Labour Relations in East Africa" (SLAREA) initiated new labour laws that were later implemented in 2008. The goal of these labour laws amendments according to the KPMG report *"is to harmonized Kenyan labour laws with ILO's core labour standards, AGOA, and harmonious it with Uganda and Tanzania"* (KPMG 2012).

**Some labour laws in Kenya**

The new labour laws initiated and passed according to KPMG report of 2012 included: *"The Employment Act- which defines the fundamental rights of employees and regulates employment of children; the Labour Relations Act on worker rights, the establishment of unions, and employers' associations; the Labour Institutions Act concerning labour courts and the ministry of labour and human resource development; the Occupational Safety and Health Act; and the Work Injury Benefits Act on compensation for work-related injuries and diseases".* Despite the importance of these labour laws,the report *added that "the ministry of labour and human resource development lacks the resources to enforce them effectively".*

Source: KPMG 2012

## 3.3. Economic Characteristics

Prior to independence in 1963, Kenya 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 (Heemskerk 2012). In the past Kenya has pursued various economic policies such as; import substitution, export oriented industrialization strategies among others. The current policy document is the Vision 2030 document unveiled in 2007 by the Kenyan government has a long-term plan for attaining middle income status as a nation. The Agriculture Sector Development Strategy (ASDS 2010-2020) under the vision 2030 aims to transform the agricultural sector in Kenya from subsistence level to agriculture as business. One of its main targets is creating market accessibility through improving rural infrastructure and trade-related capacities for market access, including the promotion of private sector participation particularly, horticulture (Government of Kenya 2012).

These targets has also resulted in a change in focus by the Kenyan government from less of public investment to more private led investment particularly within agribusiness which is the main economic engine of Kenya. As a results of this focus-private led investment in agribusiness, the government has also introduced various incentives and market reforms which are available to all investors seeking to establish in Kenya and there is no discrimination against foreign/local investors in accessing government financed and research. For instance, the Export Promotion programmes instituted by the government is widely open to all investors-local and foreign, and includes all types of products ((KPMG 2012, Government of Kenya 2012). However, the main challenges of the government initiative of private led investment drive is land policies according to KPMG report where most of the data on Kenya is taken from. The report stated; "*Although there is no specific legislation preventing foreigners from owning land, the ability of foreigners to own or lease land classified as agricultural is restricted by the Land Control Act*". These accession was confirmed in the study by the European investors in Kenya agribusiness. They indicated that the lack of effective land policies affects their productivity in the form of land disputes and high leasing fees.

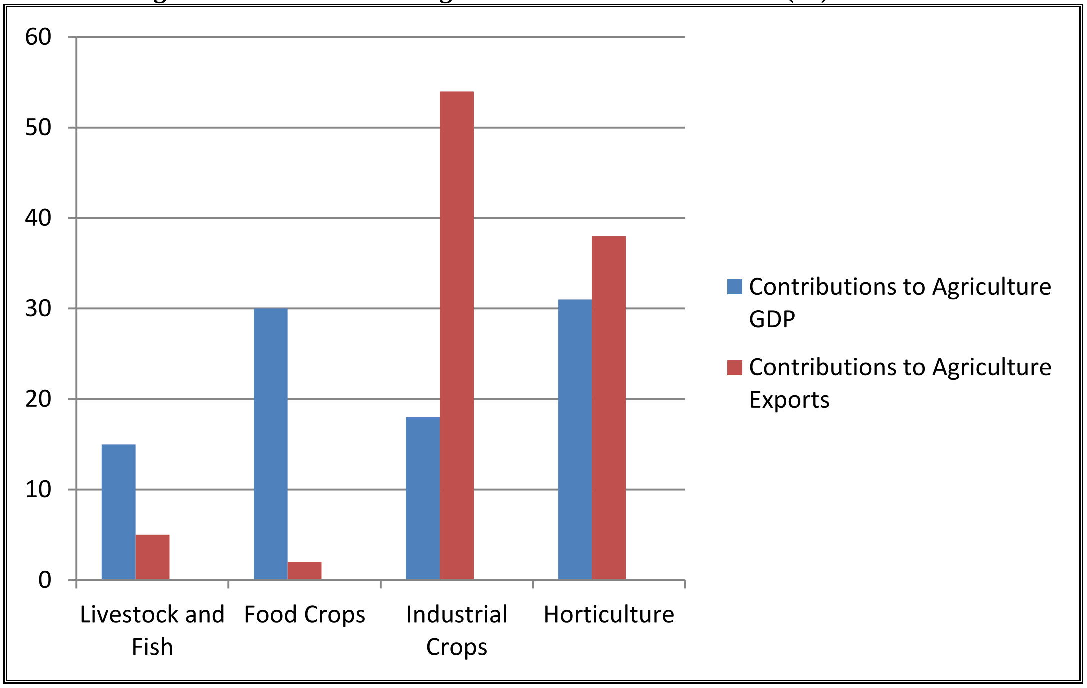
### 3.3.1. Investment Climate

According to (UNCTAD) 2008 World Investment Report, Kenya has been described as the East African region's least effective country in attracting FDI. The report stated that "*Kenya attracted US$729 million in FDI representing 2.7% of GDP in 2007, US$96 million (that is 0.3% of GDP) in 2008, US$141 million (0.4% of GDP) in 2009, and US$186 million (0.6% of GDP) in 2010*" (UNCTAD report 2008). Therefore in an effort to attract more FDI, and also creates employment and contributes to enhanced economic growth, the Kenyan government like many of Sub-Saharan African governments initiated a lot of economic policies and reforms. These policies and reform mostly include; liberalization of domestic markets, privatization, and tax reforms, the withdrawal of government from local economic development and passage of various Acts (example the Licensing Act of 2007) (Wilson 2009, KPMG 2012 report). The Licensing Act of 2007, for instance abolished most of the procedures involved in setting up business, cutting the number from 300 to 16. Furthermore, the online registration system was introduced in 2009 with the goal of enhancing business transparency and licensing procedures. Regardless of all these measures, Kenya was still rated 108 out of 183 countries in terms of destinations for investment by the 2012 World Bank's Doing Business Report (KPMG 2012 report). 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 ICT certificates are allowed 100% foreign ownership, with value added tax (VAT) and import duty tax exemptions, and companies receive an automatic permit for the employment of five foreign nationals. As a member of the East African Community (EAC), Kenya has also signed an economic partnership agreement with the European Union as a way of attracting more European investors (EU) (KPMG 2012, Heemskerk 2012).

### 3.3.2. Agribusiness in Kenya

Agriculture is a major driver of Kenya's economic growth. Its contribution to the country's GDP is around 29%, not counting indirect contributions through links with manufacturing, transport and communication, wholesale and retail and financial services. It is Kenya's main export earner. In 2010, for example, the export of tea, horticulture, coffee, and clothing provided 51% of total export earnings. Agriculture is profoundly important to nearly every one of Kenya's 43 million people. Around three quarters depend on the sector for their livelihood and survival, and around 90 percent of rural incomes come from agriculture. Within agriculture, horticulture has been one of the country's fastest growing sectors and exports account for US$ 1,160 million a year as fruits, vegetables and cut flowers are flown out of Nairobi daily to ensure year round supply to consumers in Europe and the Middle East. Kenya have an ideal climate for the production of horticultural crops produces for both local and international markets (Government of Kenya 2012, UNCTAD 2012). The next section discusses the horticulture of Kenya and its importance. The graph below shows the relative contributions of the subsectors to both Kenya's economy and export earnings.

**Figure 6: Contribution of agricultural subsectors to GDP (%) 2004–2010**

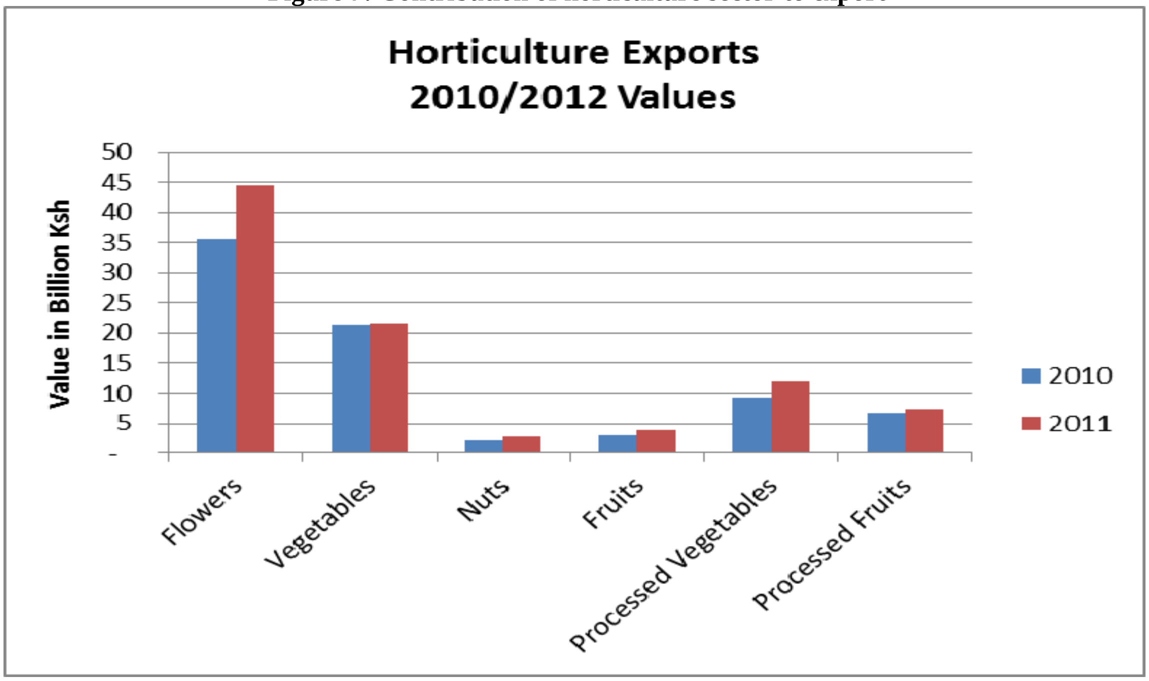



Source: Government of Kenya 2012

### 3.3.3. Horticulture Sub-sector in Kenya

According to the Kenyan government, horticultural industry is among the leading contributors to agriculture and by extension to the national economy. Horticulture contributes to the success of food security, rural income, employment creations, foreign exchange, raw material for agro-processing, and poverty reduction. The horticulture sub-sector is made up of five commodities; vegetables, flowers, fruits, nuts and medicinal and aromatic plants. The estimated value of the sector stands at KES 205.1 billion in 2011. The sector employs directly and indirectly over six million Kenyans. This represents a substantial earning to the country and makes horticultural exports an important foreign exchange earner (Government of Kenya 2012). The EU remains Kenya's principal market in horticultural export produce; with the UK, Netherlands and France being the main markets. Other important markets of the EU are Germany, Switzerland, Belgium and Sweden. The Middle East and South Africa are also vital markets outside the EU. Currently, the UK is the principal market taking a 34% share of total exports, followed by the Netherlands with 31% and France with 15%, and Germany taking 5%. The graph below shows the relative contributions of the horticulture subsector in terms of export earnings (Government of Kenya 2012).

**Figure 7: Contribution of horticulture sector to export**




Source: Government of Kenya 2012

It is therefore not surprising that 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 is a precondition for European market access (Government of Kenya 2012). On this note there study turns attention to certification schemes in Kenya agribusiness as field is one of the research objectives.

### 3.3.4. CSR and Certification in Kenya

Like most developing countries Kenya has only recently begun to apply the concept of CSR. According to KPMG report (2012), the idea-responsible business first originated in a discussion under the leadership of the UN Global Compact in Kenya on the theme *"Growing Sustainable Business for Poverty Reduction Initiative"*. However Kivuitu and Fox (2005) argued that although the term CSR is relatively new, the notion that business has responsibilities to society is well established in Kenyan society. Regarding the concept of responsible business in Kenya, a study conducted by Visser and Tolhurst (2010) revealed that most of corporate responsibility activities are directed to "*health care, education and training, HIV/AIDS, agriculture and food security, and deprived children*" .The conviction for such activities that study further stated "*the sense of giving back to the community where they operate"* (KPMG 2012 Visser & Tolhurst 2010).

Research by Muthuri & Gilbert (2011) on CSR in Kenya also drew a similar conclusion that companies traditionally use philanthropic activities as a means of buying off stakeholders in accepting the company's activities. Also the key principle for companies in Kenya engaging in responsible business 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 are health, education, training and environment, while the least common areas were enterprise development, human rights and labour rights. Their study maintained that many companies comply with laws, codes of conduct and certification labels as part of their responsibility activities while others viewed CSR as value-driven, as being part of a company's culture and core values.

With respect to certification and standardization, the Kenya Bureau of Standards (KEBS) is the sole most important national institution involved in certifying products and services. However having acquired formal recognition as the body that represents flower growers and exporters in 2012, the Kenya Flower Council (KFC) is now fully accredited to issue certificates to enterprises in the floriculture. Also international standards and certification are used when entrepreneurs export products to European markets. These certifications are in response to requirements introduced by buyers in international markets with regards to standards of environmental management, product and food safety, quality, traceability, and the occupational health and safety of workers, in the horticultural producer groups. The most used international schemes include the International Organization for Standardization (ISO), EU certification, Global G.A.P (good agricultural practice) BRC Certification, and the Business Social Compliance Initiative (BSCI), Fair Flower Fair Plants (FFP), Fair Trade, Tesco Nurture and MPS. However, the non-existent of strong CSR regulatory framework at the national level have led to some companies not adhering to CSR standards (UNCTAD 2012; IDS group 2013).

# Chapter Four

## Research Methodology

This section presents the methodology used in the study. This includes the research process, research strategies, data collection techniques and analysis which were employed in the research. This chapter also covers the operationalization of the various concepts used in the research and the limitations of the study.

### 4.1. Research Strategy

In other to effectively answer research questions and arrived at more reliable findings, the study resorted to the use of mixed methods (surveys and interviews). Mixed methodology in this research severed as complementary methods and enable the study to consolidate strengths and cross-check and triangulate any information that were central to research questions (Creswell 2009). These methods were used sequentially with quantitative (survey) first followed by qualitative (in-depth interviews). Therefore having identified the methodology and thought of the research objective and the target sample population, the first phase of the research design was to start making an inventory or database of (most) European SMEs that have an enterprise in agribusiness in Kenya. This was done via the review of literature online and government publications. The aim of this inventory was to develop a large sampling frame, which was later used to draw the sample population for administering survey questionnaires and subsequently conducting interviews. Also, the inventory was to provide the research with a thorough literature review on responsible business and background information on Kenya's development policies, focusing mainly on the agribusiness and CSR in the local context. This literature was later used to construct the necessary analytical framework in order to put the activities of European SMEs into context. The weakness of this strategy was that it did not provide the study with good data as most SMEs in Kenya either do not have a web site or are not captured in government database/publication. But this strategy gave the researcher general ideas about the various stakeholders involved in Kenyan agribusiness and which sampling method to use. Thus moving away from the research strategy, the next section of the research methodology is how sample population was selected.

## 4.2. Sample Population

A nonprobability sampling method was used to obtain the sample population. This technique was carefully chosen as it met the sampling objectives suggested by Cooper and Schindler (2006). It was intended that the sample would be diverse and comprise of different European SMEs from various industries operating in Kenya's agribusiness excluding Dutch SMEs. Therefore as the conditions for the sample was predefined, purposive sampling was applied in the selection process. This allowed the researcher to choose enterprises that fit into specific required criterion; non-Dutch European SMEs operating in the Kenyan agro-sector. The reason for excluding Dutch SMEs is that this study builds upon two previous research conducted on Dutch SMEs and CSR. As a buildup, this study seeks to investigate how CSR is understood and implemented in Kenya, focusing keenly on the operations of other European SMEs in the agribusiness.

Back to the sample population, a list of European SMEs was drawn from Horticulture Crop Development Authority (HCDA). This organization was selected because it provides accessible and more reliable comprehensive list of foreign enterprises involved in Kenya's agribusiness. To ensure the sample included all European companies, a company list from the Kenya Chamber of Commerce, Kenya Association of Foreign Investors, and Kenya Flower Council were synchronized and added to the list. In all, the final sample comprised 19 SMEs from; floriculture, food crops and dairy and livestock. The purposive sampling technique allowed the sample to contain a wide range of industry types involved in agribusiness relating to responsible business practices. However, it could be argued that the findings would be unrepresentative of European entrepreneurs in Kenya's agribusiness based on the fact that only a list from few organizations were used. Indeed, the findings are reliable and accurate based on the fact that these organizations are the most accredited and reliable source of data on all foreign investors in Kenya.

## 4.3. Data Collection and Analysis

The next stage after getting a sample population was data collection. The first step of data collection was to conduct surveys to ensure that quantitative data could be obtained fairly objectively. The survey questionnaire was divided into three parts:

- general overview of European SMEs,
- the characteristics of the enterprise operations and,

- the responsible business practices of the enterprise such as: quality working conditions, labour rights, pension schemes, and environmental awareness among others.

The questions for the first two parts were direct. For the third part of the questions, the study adopted the strategy of Papasolomou et al. (2005) and Spiller (2000) who in their respective studies on responsible business practices of companies decided not to use the term “responsible business” or “corporate responsibility” too often as a lot of these companies generally do not use this concepts for the reason that such concepts might influence respondents and the outcome of research. In their research, they rather focused on finding which practices a company employs towards its primary stakeholders. They did this by dividing the main stakeholders into clusters and defining actions or values to each of these stakeholder groups (Papasolomou et al. 2005 and Spiller 2000). This was the strategy this study used as CSR in Africa, and particularly in Kenya, is an emerging concept and companies display different interpretations and practices of the concept. The study scaled research questions which enabled entrepreneurs to indicate to what extent (from 1 to 5) the enterprise is implementing a different CSR criteria, with 1 being not at all and 5 being to a large extent. The questionnaires were both structured and semi-structured. Structured questions were to allow the collection of basic information while the semi-structured allowed for the collection of more diverse range of data on responsible business. As Bernard (2006) noted, it is important that respondents are exposed to the same stimuli under the same circumstances. Therefore the survey was conducted through face-to face interviews with the European entrepreneurs. The advantage of these face-to-face interviews was that the researcher could probe for more complete data, while doing this, the researcher should be very cautious for the fact that he could influence the respondent’s answers making the results bias. In all, 19 surveys were conducted with SMEs in floriculture, food crops, dairy and livestock.

The importance of using qualitative data became imperative given the fact that a small sample population was used for this study. As stated in the research strategy of using sequential mixed methods, the survey was conducted first followed by in-depth interviews with 15 of the European SMEs. Quantitative data can identify certain trends, but to really understand these trends, they should be colored by people’s opinions, examples and narratives through interviews (Creswell 2009). The objective of using interviews at this stage was to get a deeper insight and understanding of the reasons and effects of responsible behaviour among European SMEs such as: motivations for responsible business practice, drivers of responsible behaviour and how all these impact on the local people. To get a clearer and different views of responsible business claimed by European investors' interviews were also conducted with several stakeholders (government institutions, employees, farmers, NGOs, certification label organizations) directly or indirectly linked to agribusiness. These interviews revealed mixed concerns among the stakeholders group. Some agree with the European investor's claims of being responsible in their business operations while others disagreed and raised various concerns. These concerns are discussed in chapter six of this research. A total of 12 stakeholder's interviews were conducted.

Considering the fact that sample population was too small due to time, resource constraints, non-respondents and other limitations in the field, univariate analysis was used through graphic displays, tables and summary of statistics in the survey analysis; taking into consideration the objectivity, reliability and validity of data throughout the entire analysis stage. Qualitative data from the interviews were analyzed systematically through descriptive and thematic analysis. The overall use of mixed methodology (quantitative and qualitative) in the research was to create both a holistic and in-depth understanding of CSR practices of European SMEs in Kenyan agribusiness in which a comparison was possible between the companies and between the different subsectors within agribusiness.

**Table 2: Summary of methodology and interviews**

| Methodology | | Respondents |
|---|---|---|
| **Quantitative** | Survey of European SMEs in agribusiness | 19 |
| **Qualitative** | In-depth interviews with European SMEs in agribusiness | 15 |
| | Stakeholders interviews (government institutions, employees, NGOs, certification companies) | 12 |

## 4.4. Critical Reflections on Research Methodology

During the entire research process some limitations and challenges were encountered in the field and are worth mentioning. To begin with, there is no complete list of all foreign investors with one specific organization or department in Kenya. Therefore various departments and organizations were consulted through different techniques to obtain a sample population of foreign investors. Although the different sampling techniques provided 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. Next, the quantity of respondents for some sub-sectors (dairy and livestock) is rather low. Although these sub-sectors actually make up a small number of European enterprises, caution is still needed when analyzing the results of these sectors separately as this also creates a problem of the representativeness of the research population.

Furthermore, because the owners and managers of enterprises were interviewed, it is difficult to establish to what extent these entrepreneurs are sincere about what they say. The outcome of the research is therefore liable to a high self-assessment and could thus give a more positive view on responsible business practices than actually what is the case on the ground. The research attempted to eliminate this potential bias in the results by interviewing different stakeholders, targeted by the enterprises in their responsible business practices and presented in the discussion section. Although interviews were held with several stakeholders it was rather difficult to uncover what is actually happening regarding responsible business practices as stakeholders groups raised mixed concerns.

Last but not least, time and resource constraints limited the research to few respondents therefore the results and conclusions arrived from this study apply only to the research population, not to the entire population of European SMEs in Kenya. Additionally, since the analysis is based on foreign (European) companies in Kenyan, it might not be binding on companies within East Africa due to the difference in legal, socio-economic and environmental factors.

## 4.5. Definition of Concepts

The various concepts that form the basis of this research are defined in this section based on available literature. The aim is to enable the usage and understanding of these concepts within the context of this research and also the probability of using these concepts in measuring and analyzing data.

### *Sustainable Development*

The concept of development is mostly linked and often confused with economic growth and its quantitative measurement in terms of GDP growth and other combined statistical indicators. For instance according to the Online Business Dictionary, development refers to the adoption of new technologies, transition from agricultural based to industry based economy and general improvement in living standards (Business Dictionary, 2014). This line of philosophy can be traced back to modernization theorists that viewed development as a process evolving along a fixed predetermined path with a clear emphasis on economic and material aspects such as GDP growth, industrialization, urbanization, and per capita. Also the UNDP initial Human Development report in 1990 described the goal of development as: "*to create an enabling environment for people to enjoy long, healthy and creative lives*" (UNDP, 1990).

Since the term sustainable development is prone to various definitions, and the objective of this research is to assess different impacts of European companies (SMEs) on sustainable local development in Kenya, the definition given by the Brundtland Commission 'Our common future' (1987) is used. *"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).

***European Small and Medium Enterprises***

There is no clear-cut way to determine which enterprises can be called European and which cannot as there are many categories of European SMEs. They include:

- companies owned and manage solely by European investor;
- companies with majority or minority ownership of shares being European with management; and
- European majority shares with non-European management.

In addition, some enterprises start as local but later get foreign shareholders or are taken over by European management teams. Therefore to define what is regarded as a European enterprise is quite difficult. For the purpose of this research, the following definition is used based on Heemskerk (2012) definition of Dutch entrepreneurs; European SMEs will refer to: "*an individual or group of individuals with European nationality who have established or acquire (alone or together) an enterprise with a physical location/office in Kenya".*

***Agribusiness***

In Kenya, agriculture is a major contributor to the economy and provides livelihoods for the majority of the population. Primary production plays an important part in maintaining the country's food security, while the industrial and horticultural crops subsectors are important foreign exchange earners (Government of Kenya 2012). Based on the importance of agribusiness and its enormous potential for the Kenyan economy, it is vital to define this concept. According to National Agribusiness Strategy policy document, agribusiness is defined as; *"a sector that comprises all businesses involved in agricultural production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales"* (Government of Kenya 2012).

***Small and medium sized enterprises***

Presently, there is no collective definition of small and medium enterprises (SMEs) in Kenya. Different agencies define SMEs based on their own criteria, usually benchmarking against annual sales turnover, and number of full-time employees or shareholders' funds. According to the sessional paper No. 2 of the national baseline survey of 1999; *"A small and medium enterprise in primary agriculture is an enterprise with full-time employees not exceeding 50"* The same document defined a medium enterprise as an enterprise with full-time employees of 200 and a large enterprise with over 200 employees (Republic of Kenya 1999).

***Stakeholders***

Stakeholders form an important part of responsible business. The definition of stakeholders in this research is adopted from the definition of Freeman (1984). He defined stakeholders as: "*A group or individual that can affect or is affected by the activities of a company*" (Freeman 1984). Examples of stakeholders include: employees, local communities, the environment (a silent stakeholder), suppliers, customers, clients, investors/shareholders, local or national government, NGOs, global institutes (UN), civil society, or company's network and partnerships and many more.

# Chapter Five

## Research Findings and Analysis

The aim of this chapter is to present the research findings that were gathered from the field based on the survey and in-depth interviews conducted during the period of the study (February- May 2014). The chapter is in two parts. Part one focuses on the characteristics of European SMEs in Kenya agribusiness, which includes; ownership, sector of operations, products and services, and management. The second part tackles sector specific European enterprises operations in the agribusiness industry. These are floriculture, food crops (fruits, vegetables, grains and nuts) and livestock and dairy. The European companies in these sub sector to a large extent have different features that were examined separately focusing on individual CSR performance and motivation of each of these three.

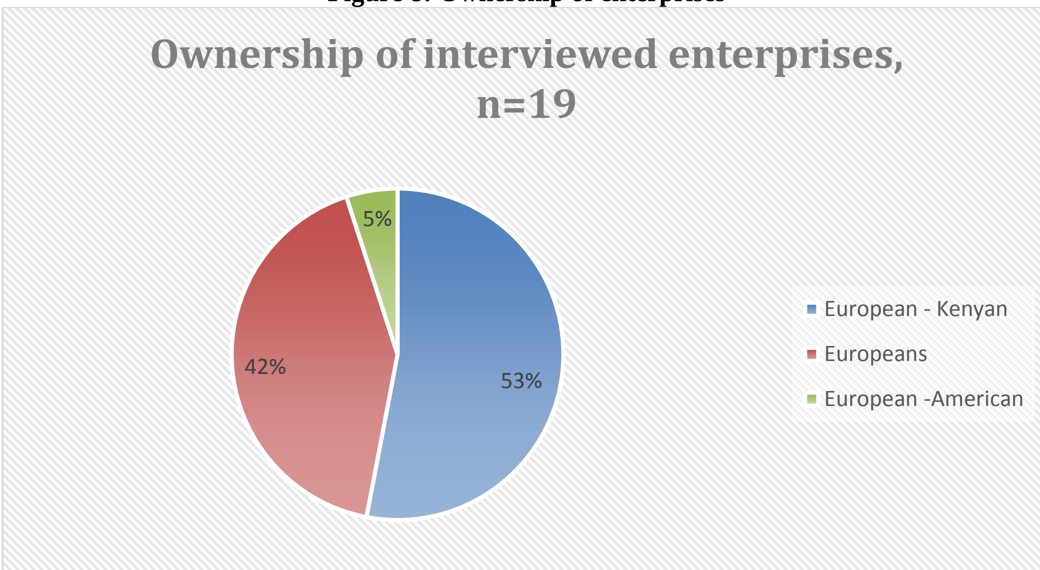
### 5.1. Characteristics of European SMEs in Kenya Agribusiness

The agricultural sector in Kenya over the years has developed many excellent visions, policies, strategies and competitive innovative plans. These have contributed significantly to the transformation of the sector making it the most positive and vibrant within the East African sub-region and attracting many multinationals especially in the horticulture sector (Government of Kenya 2013). It is estimated that close to 300 registered companies dealing in fresh vegetables, fruits, dairy, agro services and cut flowers both for export and domestic consumption are operating in Kenyan agribusiness. Of this figure, there are a large number of European enterprises from different EU countries.

#### 5.1.1. Enterprise Ownership

Out of the estimated 300 companies, close to 200 European enterprises are involved in Kenyan agribusiness. However, not all these enterprises were covered during the research. In total, 19 European entrepreneurs engaged in floriculture, food crops (fruits and vegetables), dairy and livestock were interviewed for this research. From these interviews and surveys, it was observed that the 19 European enterprises were owned by nationals from: Austria, Britain, Belgium, Demark, Germany, Luxembourg, Italy, Switzerland, France and the Netherlands. Of these 19 enterprises, more than half (53%) of these European enterprises have joint ownership with Kenyans; mostly with Europeans being the majority shareholders. The remaining 42% of the enterprises have European co-owners from UK, Italy, Austria, Germany, Netherlands, Belgium, Switzerland and France with varying shares and the other 5% of the companies have joint ownership of European and American origins.

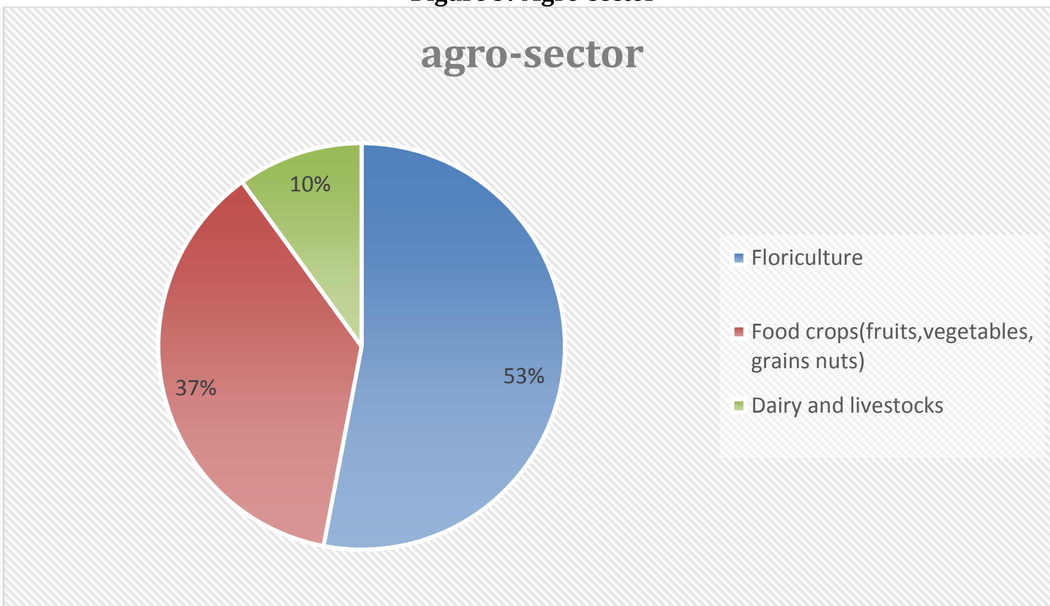
**Figure 8: Ownership of enterprises**




### 5.1.2. Agribusiness Sector of European SMEs

In terms of sector categorization within the agribusiness, out of these 19 enterprises, 10 companies representing 53% are involved in floriculture, 7 enterprises representing 37% are engaged in the export of food crops (fruits and vegetables) and 2 enterprises representing 10% are engaged in dairy and livestock sub-sector. The dominance of floriculture in this research might suggest the following conclusions; good investment environment for foreign direct investment, favorable climatic weather condition in Kenya for flower production, and the high demand for flowers in Europe and other international markets. The European companies operating in these three sectors covered by the research differ greatly from each other and their characteristics will be discussed in different sections focusing on their socio-economic and environmental performance. These are based on the survey questions that were administered.

**Figure 9: Agro-sector**




### 5.1.3. Products and Services

The ideal climate in Kenya supports the production of a wide range of horticultural produce for both the local and international markets. The main export products of European enterprises can be divided into three categories; vegetables, fruits and cut flower. The tables below revealed the major export products and major export destinations.

**Table 3: Major Export Products of European entrepreneurs in Kenya**

| Vegetables | Fruits | Flowers |
|---|---|---|
| French beans | Avocadoes | Roses |
| Snow peas | Mangoes | Alstroemeria |
| Garden peas | Passion fruit/ Dried fruits | Carnation |
| Okra | Pineapples | Cut foliage |
| Karelle | Bananas | Chrysanthemum |
| Ravaya | Straw berries | Lisianthus |
| Dried spices, vegetables | | |

**Table 4: Export destinations by product**

| Vegetables | Fruits | Flowers |
|---|---|---|
| United Kingdom | United Kingdom | Netherlands |
| France | Netherlands | United Kingdom |
| Germany | Germany | Germany |
| Netherlands | France | Other EU countries |
| Other EU countries | Other EU countries | The middle East |
| Saudi Arabia | Saudi Arabia | Japan |

### 5.1.4. Management

In the area of management, about 84% (16 companies) have Europeans occupying senior positions as managing directors and general managers. While the remaining 16% (these are the only 3 companies with Kenyans having majority shares) have Kenyans at top management. Other positions as human resource, farm and operations managers are mostly Kenyans as well as the farm workers (unskilled labour). Moving away from the general features of European SMEs, the subsequent sections deals with the findings of the three sectors stated earlier in the introduction. First the characteristics of the floriculture, followed by the food crops and finally, dairy and livestock.

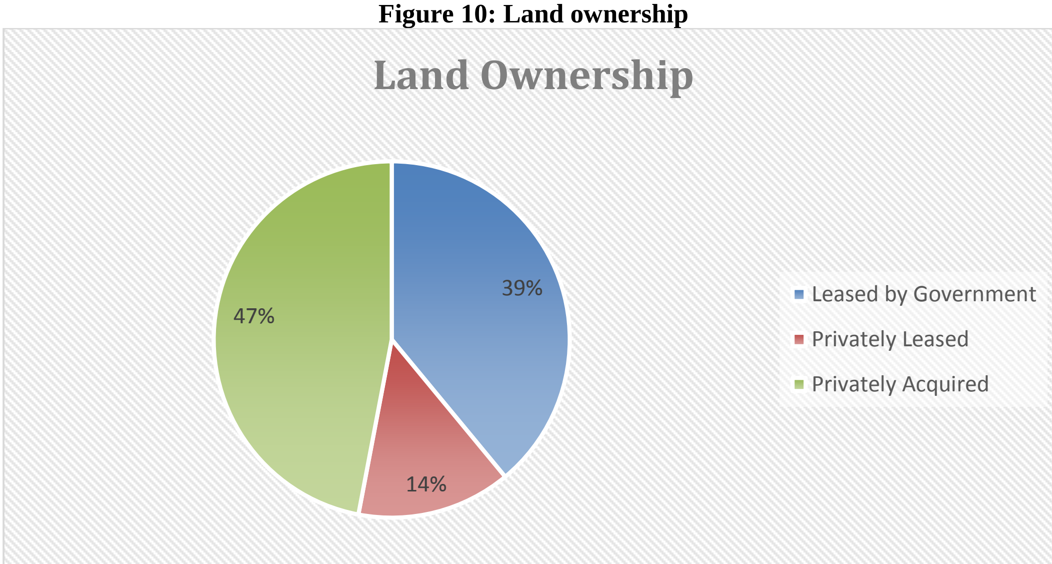
## 5.2. Floriculture

### 5.2.1. General Information

In 2012, floriculture contributed Ksh 39.7 billion- accounting for 18% of the domestic value of horticulture and making it one of the fastest growing subsectors in the agriculture sector and a key to achieving Kenya vision 2030. Available data indicate that the total area under floriculture is 4,039 hectares with a production of about 878,067 tons per year and generates over 500,000 direct and indirect employments-thus making it a major employer (Government of Kenya 2013). European small and medium enterprises are well established within the floriculture in Kenya particularly within Kiambu and Nakuru counties. In this research, out of 10 European companies involved in the production of flowers, 6 flower farms were located within Naivasha (Nakuru county), 2 in Kiambu county, 1 in Laikipia and the last 1 in Kericho county. Based on the definition and classification of SMEs by sessional paper No. 2 of the national baseline survey, 4 companies representing 40% in this research fell under the category of large scale operations, 30% medium and 30% small scale production respectfully. The main kinds of flowers cultivated by European SMEs revealed in the survey were: Roses, Easter lilies, Arabicum and Carnation. Other flowers cultivated included Hypericum, Alstroemeria, Agapanthus, Moby dick, Ornamental Amaranthus, Eryngium, Statice, Gypsophilla, Phlox, Gladiolus, Anthurium, Scabiosa, Solidago, Leather leaf fern, Lilies and Tuberose.

The research revealed that the year of establishment of these companies varies with only 2 companies founded in the 1980s, the rest started operations after the year 2000. On average each enterprise has about 26 hectares of land and an average of 20 workers per hectare. The total land area under cultivation by the interviewed flower farms is 262 hectares. Close to 39% of the land were leased from government ranging from 1 to 59 or 99 years, while about 14% were leased privately from local landlords. The remaining percentage- 47% are privately owned by the Europeans which they acquired mostly through local land dealers. Some of the entrepreneurs reported that the leasing of land for short period from private land owners have negative impact on their general turnover due to new leasing fees being charged every few years. The 10 floriculture enterprises involved in the study employ a total of 5285 workers consisting of 3805 (72%) permanent and 1480 (28%) temporary employees respectfully. All the companies indicated that they only hire casual workers during peak season, for example during valentine and other festive periods. In terms of gender division of employees 70-75% are females and 25% males. When asked why the female majority, one enterprise manager stated *"due to the fragile and delicate nature of handling flowers, women are more likely to work more accurately, making them better suited for harvesting flowers".* He added that *"it is a way of encouraging and facilitating female representation and the contribution of women to the business"* (company number 5).

**Figure 10: Land ownership**




It can be observed from the chart that more than half (61%) of the land in floriculture sector is privately owned either by the foreign investor or local private source. Turning away from the general information about floriculture, the focus of the findings is now on the socio-economic and environmental performance of the 10 SMEs in the flower sector.

### 5.2.2. Economic Performance

As one of the fastest growing subsectors in the agriculture sector in Kenya, floriculture is very important to the economy in the form of foreign exchange and employment generation. Putting the economic significance of the flower industry in to context, all the 10 interviewed companies in the study recorded an increase in total turnover (number of employees, clients, labour cost and new products) within the last five years of their operations. In terms of new location, only 2/10 firms acquired new sites. The rest increased their production hectares within the same location. Although these companies recorded different rate of expansion, the average turnover of the large enterprises is between 1.5 to 3.5 million US dollars and the small and medium firms between 700,000 to 1.5 million. Each firm grew within the range of 35- 50%. According to the entrepreneurs, the reasons associated with such growth were:

- increased global demand for cut flowers;
- favorable foreign direct investment policies in the country;
- availability of means of production (more especially land and labour); and
- effective management.

All the entrepreneurs projected further growth rate of 20% or more for the next coming years with the expansion of new markets such as Japan, Dubai, UAE, and Russia.

In order to meet international quality standards, all the enterprises in the floriculture purchase their main products: chemicals, fertilizers, pesticide, and greenhouse materials from multinational cooperations (Amiran, Elgon, East African packaging Irrico, and Mega pack) based on individual transaction basis popularly referred to as local purchase order (LPO) in Kenya. These suppliers, all respondents claimed, must meet the guidelines of supplies set by the National Environmental Management Authority (NEMA) and Kenya Flower Council (KFC) before they are selected. Other materials such as packaging boxes and protective clothes are bought locally from either large or medium companies. About 85% of flowers are exported to clients in Europe. Of the 85%, more than half (66%) is through the Netherlands flower auction, and the remaining through direct clients in UK, Germany, France, Switzerland, Belgium and Sweden. The Middle East (Dubai and UAE), Japan, South Africa and others accounts for 15% of customers. All the firms interviewed stressed that there are formal procedures on the part of enterprises to respond to demands and complaints of customers and also to make product specifications clear (quality, cost, delivery charges and time schedule) to clients.

An important feature of the floriculture sector is the value chain. A large amount of the interviewed flower companies in the research are involved in a lot of activities within the value chain. This is illustrated in the table below:

**Table 5: Value chain of European enterprises in the floriculture**

| Activities within Value chain | Enterprises (N=10) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Machinery/Engineering | | | | | | | | | | |
| Fertilizers/pesticides | | | | | | | | | | |
| Seeds | | | | | | | | | | |
| Services/Consultancy | | | | | | | | | | |
| Research and Development | | | | | | | | | | |
| Farming | | | | | | | | | | |
| Storage/cooling | | | | | | | | | | |
| Processing and Manufacturing | | | | | | | | | | |
| Packaging | | | | | | | | | | |
| Retail | | | | | | | | | | |
| Transport | | | | | | | | | | |
| Trading and Exporting | | | | | | | | | | |
| Marketing | | | | | | | | | | |
| Others | | | | | | | | | | |

It can be observed that most of the companies are engaged in farming, packaging, transport, and trading and exporting. The reason according to some respondents is to minimized costs, ensure on time product delivery, and quality of the flowers for the market. A small number of companies are however involved in storage and cooling. These are enterprises that are located very far from the airport, and the biggest firms are those engaged in research and development and marketing.

### 5.2.3. Social Performance-employees relations

Touching on the newest of the three dimensions of CSR- social responsibilities of European SMEs in the flower sector. As mentioned in the general introduction, floriculture provides a lot of employment opportunities to local people especially women. Most European entrepreneurs view employment as a way of empowering the local people and therefore build good relations with their employees. About 80% of the interviewee's stated that they pay their employees higher wages more than the average minimum wage set by the government (5-15% higher noted by some). In addition, many of the companies offer additional facilities such as housing, health care (dispensaries established on farms to offer medical services and care to employees, their dependents and other people from surrounding areas), provision of transport to work, solar lamps for household usage, kindergarten for the children, and help pay school fees of workers' children. Most of the companies are also engaged in the provision of scholarship to employee's children and few others from the community who have performed well and about to go to college.

All the European companies insisted that they comply with national labour laws such as; paying employees medical insurance through the National Hospital Insurance Fund (NHIF) and pension contributions with the National Social Security Fund (NSSF). The companies also adhere to labour regulation on holidays, medical leave and maternity. Workers have 21 days holidays (with pay) in a year, 45days for medical leave with full salary and another 45 days with half salary in the case of extension and maternity leave of three months (90 working days). Protective clothes are provided for workers. Also 6/10 companies had an organized trade union for the workers, and the other four stated that employees are free to join unions. To prevent any sort of abuse and harassment, gender committees have been established to educate workers on sexual abuse and provide female workers with complaints procedure.

Beside these formal employment statuses mandated by Kenyan labour laws, majority of the entrepreneurs emphasize more informal qualities as: training employees on chemical safety, labour laws, environmental care, first aid, team building, education on HIV/AIDS awareness among others. Capacity and team building trainings are also offered to staff and opportunity given for further education. When questioned about the reasons for doing this, most entrepreneurs gave a value-driven explanation: the skills learned are expected to eventually diffuse into the local market and have positive impact in new techniques geared towards increase in production and efficiency. Thus one of the companies had even set up a micro credit to give employees the opportunity to take a loan without interest or at least with very low interest rates (depending on amount) for their personal development.

### 5.2.4. Community Involvement

Knowing that their businesses have the potential to impact the communities in which they operate, about 70% (7/10) continued to make a positive contribution to these communities with the passionate belief that the well-being of the community has a positive impact on their operations. Examples of community involvement include:

- building of schools;
- health post for emergency treatment;
- efforts to minimize negative impacts on community such as afforestation projects; and
- access to potable drinking water.

Donation to charities, hospitals and school activities were also identified by the companies as their community involvement and support. Notable among all the 10 companies interviewed was the involvement in HIV/AIDS education and sensitization for employees and community members due to the prevalence of the disease. The society and government expects companies to help address the menace.

### 5.2.5. Environmental Performance

Regarding the use of natural resources and environmental issues, all the interviewed companies continued to identify the environmental impacts of all their activities and manage these in a responsible manner. The significant attention of environmental protection given by the companies is as a result of increased global anxiety about the environment, such as the current concerns surrounding climate change and human–wildlife conflicts in Kenya. Other factors include; the negative media publicity about the flower industry in Kenya in recent times, which resulted in decreased product sales of companies, and the intense pressure and demands from European consumers particularly large retailers, government bodies and pressure groups. These have forced the industries to take serious actions to protect the environment and the people living in the area.

Accordingly, all the 10 interviewees conducted an environmental impact assessment before the setup of enterprise as this was mandatory and strictly applied. Some entrepreneurs pointed out their environmental responsibility to include; the firm's involvement in waste reduction to a great extent, compliance with all environmental legislation, providing appropriate training to employees on environmental management, use of biological agents where possible and the growing of flowers on hydroponics. Other environmental friendly measures were; recycling of waste, use of wetland to treat water, the careful and efficient use of land, water and energy, and engaging in tree planting activities. For example, few entrepreneurs mentioned the use of LED lighting to conserve energy, and conducting yearly environmental audit. Also, 2 flower farms have set up a laboratory to test potential pollutions.

In the area of fertilizers, pesticides and chemicals, this largely depends on a lot of factors including the type of fertilizer/chemical, type of flowers, the stage of flowers growth and the different standards and certification schemes being used. For this purpose all the interviewed enterprises keep records of chemicals and pesticides usage and strictly comply with EU regulation, ISO standards and BRC certification, MPS, fair trade fair flowers, and KFC certification. The reasons for signing to certification are that these certification schemes have environmental management systems and processes covering ecosystem conservation, wildlife protection, fair treatment and good working conditions for workers, integrated waste management and good community relations. Though, regulations about waste management are less strict, most of the enterprise (7/10) indicates they obey local laws governing waste management and have contracted a private waste management firm to specifically disposed all waste generated by the firm's production processes. They also have a policy of training employees on proper waste disposal and management.

## 5.3. Food crops (Fruits and vegetables)

### 5.3.1. General Information

Currently the horticulture industry is the fastest growing agricultural sub sector and given Kenya's ideal tropical and temperate climatic condition, the country is conducive for producing a wide range of fruits and vegetables. Kenya is the second largest developing country supplier of vegetables to the European Union after Morocco. The economic importance of the fruits and vegetables sub sector cannot be under estimated. For instance in 2012, fruits contributed Kshs. 61.5 billion, accounting for 22% of the domestic value of horticultural produce. Vegetables contributed Ksh 91.3 billion, representing 38% to the domestic value of horticulture (Government of Kenya 2013).

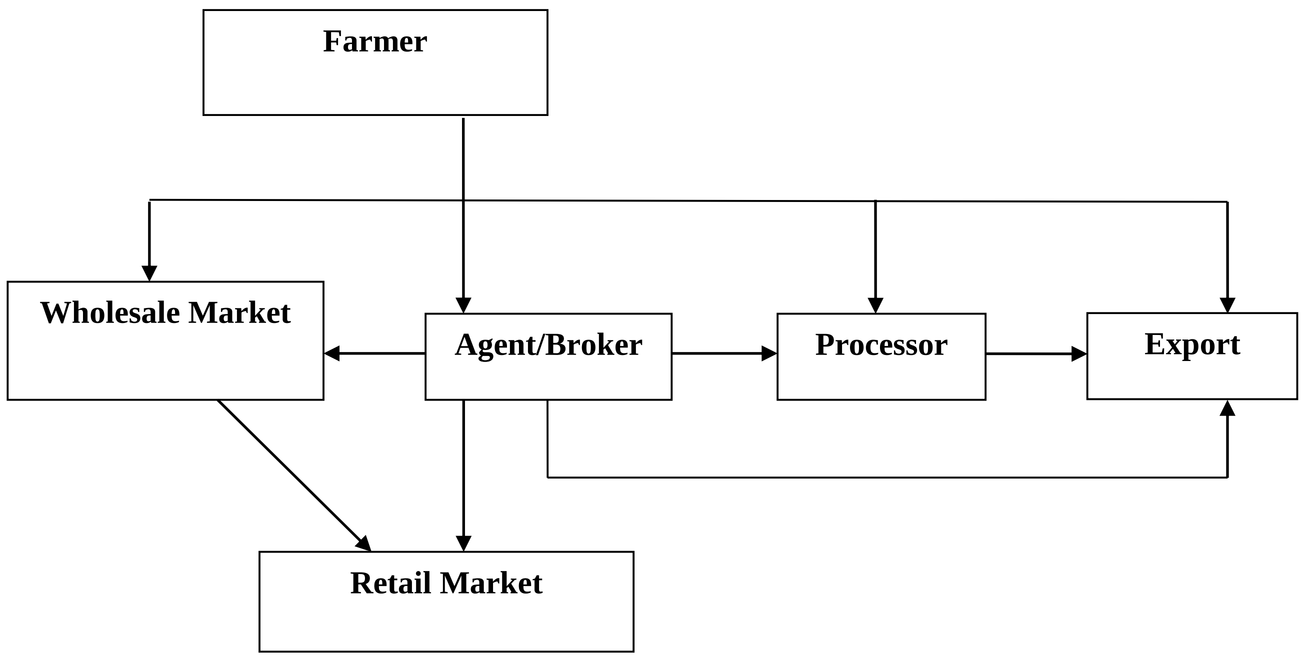
During the research, 7 entrepreneurs were interviewed under the category of fruits and vegetables. These companies were located in diverse region and locations ranging from; Rift Valley, Nyanza, Western, Eastern, and Coastal Kenya. Also, the size, activities and the products produced by the interviewed companies were widespread and greatly differed. The major fruits and vegetables grown by European entrepreneurs are; banana, mangoes, pineapples, avocado, potatoes, tomatoes, French beans, cabbages, moringa, paprika and bird eye peppers, and macadamias nuts for export and the domestic market. In terms of enterprise value, tomatoes cabbages and French beans are the most lucrative in the vegetables sector while pineapples, avocadoes, oranges, bananas and mangoes are the leading fruits. Three (3) out of the 7 companies rely on smallholders farmers for their produce while the remaining 4 companies cultivated by large-scale.

### 5.3.2. Economic Performance

According to the research data, only one company was founded in the 90s the rest (6) were founded between the years 2000 to 2011. Just like in the floriculture, all the companies in food crop also indicated economic growth and expansion of their operations during the last five years. The entrepreneurs stated that the reason for this increased growth was the growing market demand for their products. The annual turnover of these firms on average is between US 350, 000 to 1 million USD. When probed if the companies were expected to grow in near future, all the companies answered in the affirmative with a projection of 50% growth for the next years so as to keep abreast with production cost and market demand. In contrast with the floriculture, all the companies within the fruits and vegetables buy their supplies (Fertilizer, agro-chemicals soil test equipment, irrigation) from both small and medium enterprises and large enterprise operating in Kenya. Accordingly, close to 60% of fruits and vegetables produced by the European entrepreneurs are exported mainly to France, Britain, Netherlands, Germany Italy and other EU countries. The remaining 40% are sold within Kenya, other African markets and Middle East.

The value chain of the fruits and vegetable sector is somehow different from that of the floriculture sector. This is because vegetables and fruit production is dominated by smallholders and the domestic and regional trade takes much of the value chain. It is estimated that about 7,000 smallholder farmers are involved in the export of fruits and vegetables in Kenya (Government of Kenya 2012). The major actors involved in this sector are producers, traders (brokers), transporters and local authorities. Brokers served as middle men between producers (mostly farmers) and the market of companies, they bring the farmer's products to the companies or market. The current consumer demand within EU have prompted a drastic change in the value chains of fruits and vegetables sector. Due to high quality demands and certification schemes, smallholder farmers are gradually being pushed out of the cultivation of fruits and vegetables hence impacting negatively on smallholder's production.

**Figure 11: Fruits and vegetables Value chain**




### 5.3.3. Social Performance-employees relations

The 7 companies in this category provides a total of 2697 employments of which 1405 are permanent, 872 temporary and 420 causal. The majority of these employees similar to the flower sector are females (60%) and with a male minority (40%). As the sector requires very precise and secure work, female workers tend to be more appropriate and on high demand than males. The 4 companies cultivating on large-scale owns a total of 1493 hectares of land with 20% privately bought and owned by the investors, 80% being leased from private land owners-farmers and government. The estimated land size of the 3 companies that rely on smallholders farmers is about 800 hectares. The study revealed that, employees earned 2-3% above the average minimum daily wage and work 8hours per day with 21days leave per year. Although none of the employees of these 7 companies are members of any trade union, they are free to join if they so wish. All the 7 interviewed companies conformed to labour laws on medical leave, insurance, maternity and social security for the workers. The managers are very much involved in the wellbeing of their employees and provide health and safety regulations at place of work, personal protective equipment (PPE), training programs on safety, monitors all forms of compliance, harassment, bully and discriminations within the place of work.

**Food Security initiative**

To ensure all year-round food availability for employees, one of the surveyed companies has initiated a Kitchen Garden program. Each employee is encouraged to cultivate the area around their house and plant vegetables sustainably. The key message of this program is to demonstrate the fact that employees are capable of producing various different types of vegetables sustainably, enough to feed a family of five and have a surplus to sell. The company educates and encourages employees to organically plant indigenous vegetables, which are highly nutritious. The result has been that there is no malnutrition on their farm estates. The Kitchen Garden program supplements the ongoing provision of food staples by company to employees.

### 5.3.4. Community Involvement

Although not all the companies in the food crop sector are engaged in community activities, some of the firms do support the community in education through scholarships, subsidies on prices, and funds for other community projects. According to some owners, they are able to achieve these through open and effective communication with employees and the surrounding communities.The out grower system used by the 3 companies have significant benefits for the local farmers as they are organized into cooperatives and receive special training concerning cultivation methods adapted to the needs of the crops. The grouping of farmers into organizations protects them from price instability and they also benefit from sharing knowledge on production issues. The smallholder farmers receive extensive training and other assistances such as advances of payment which are in practice interest free loans. Furthermore, they are always paid on time when selling their product to the companies. An important issue which will be discussed in the next chapter is the collaboration of one European investors and USAID in assisting smallholder farmers to adopt good agricultural practices and how it has benefited the local community.

### 5.3.5. Environmental Performance

Being a key pillar of responsible business and an important topic of discussion in the past three decade in the business environment, almost all entrepreneurs in the study try to promote greater environmental responsibility. Interviews with entrepreneurs within the food crop sector suggested that almost all the investors are actively committed to enhancing environmental sustainability and biodiversity programs. Entrepreneurs within this sector strongly comply with code of practice such as regular soil fertility impact assessment, providing appropriate training to employees on chemical management and usage, use of low-cost greenhouses, use of efficient cost effective treatment methods of farm waste, and the use of drip irrigation to transport water and fertilizer directly to each plant. One entrepreneur alleged that *"this compliance is not only environmental friendly and enhance standards but also save time, labour costs and increased production"*. Another environmental responsibility of European investors in the food crop sector mentioned by entrepreneurs is that waste from the farm and factory are composited in farmyard manure and used on the farm. The few companies outsourcing from out growers give these manure to the out grower farmers free of charge.

Similare to the flower sector, the use of fertilizer and pesticides, all the companies are very much guided by the different certification and standards governing the export of crops to the European market. For this particular reason, the entrepreneurs also admitted that records are documented on the use of fertilizer, pesticides and water, which are communicated back to certification bodies and government authorities (NEMA).

## 5.4. Dairy and Livestock production

### 5.4.1. General Information

Livestock contributes about 10% of the total 27-30 % agricultural GDP and dairy products contribute close to 30% of gross marketed products (SDP 2012). Dairy and livestock remains very important to Kenya's economy because of its support to the livelihoods of the several people involved throughout the value chain and to the nutritional welfare of many rural populations. Available data projected that there are nearly 3.5 million cattle, 13.9 goats and 1 million camels producing more than 3 billion liters national milk output. Smallholder dairy farmers control the industry at the production level and there are more than 1 million smallholder dairy farmers, based on available data (SDP 2012).

During the research two European entrepreneurs were interviewed under this sector, one firm was engaged in the provision of input and service such as; agro-vet, breeding service, suppliers of breeding stock, dairy recording and stud book service, and fodder crops. The concentration of this company on only livestock explains why it is being discussed in this section. The other firm is active in milk production, dairy meat and processing of milk into cheeses and yoghurts mainly for the Kenyan market. The two companies involved in this sector own a land size of about 213 hectares, which is bought from private parties.

### 5.4.2. Economic Performance

Regarding the economics performance of this industry, the two enterprises are small scale. The annual turnover of these companies on average is between 700,000 to 1 million USD, and they recorded close to 20% growth rate within the last five years. The increase in growth rates is largely attributed to the growing Kenyan population, which has resulted in higher milk consumption and the influx expatriates. According to Smallholder Dairy Project report (SDP 2012), milk consumption levels in Kenya are among the highest in the developing world with an average of 100 kg/year per capita. The two entrepreneurs interviewed pointed out that within the last couple of years, they recorded growth in the number of workers, clients, new products and location for the firm engaged in milk and dairy meat. Unlike production within the floriculture and food crop where products are meant for foreign markets, 100% of the products in this sector is consumed locally. Dairy products are produced for supermarket chains throughout Kenya.

The value chain in the dairy industry is very much different from flower farms and that of fruits and vegetables. In the dairy sector, before market liberalization in the early 1990s the value chain was an organized milk collection and bulking system in the formal market, with two types of milk delivery to Kenya Cooperative Creameries (KCC) facilities. One through individual dairy farmer, and two by cooperative societies. With the advent of free market system and the failure of KCC, the collection and bulking system also collapsed. At present the main value chain activities are collecting and bulking, transportation, processing and manufacturing, packaging and trading of the product in the hands of brokers and middle men.

### 5.4.3. Social Performance- employee relation

Based on data from SDP report (2012), the dairy processing sector creates an average of 13 jobs (12 direct and one indirect) for every 1 000 litres of milk processed. This projection is based on the notion that the formal market segment handles about 1.6 million litres of milk a day. The two companies in this category however employ a total of 249 workers. Of these, 61% are male and 39% female. 217 representing 87% of employees are permanent and 32 representing 13% are temporary. The gender composition in this sector is in clear contrast with the floriculture and food crop due to the physicality required in dairy processing. Like the other two industries, the companies here claimed to pay salaries above the minimum wages, and also provides health insurance coverage that exceeds the minimum requirements in the labour market. As a result of public health concerns and the potential risk of diseases such as brucellosis and tuberculosis, workers handling fresh milk are given regular training on personal hygiene. Also the companies provides accommodation and medical facilities for all employees. Class room blocks are constructed on the farms to cater for the educational needs of employees children.

### 5.4.4. Environmental Performance

Universally, environmental worries about dairy production include the effects on air pollution, climate, land and soil degradation, and loss of biodiversity. In Kenya, however, the environmental fears are more of: floods and droughts; livestock and crop diseases; soil erosion, and infertility and desertification (SDP 2012). Interview with the two entrepreneurs showed that most of the smallholder farmers and informal traders who dominated the dairy industry have little awareness of environmental problems. Thus less is being done to protect the environs. The two firms in this sector however stated that as players in the industry, measures are being taken to improve the environment through environmental education to smallholder dairy farmers, and the demands for farmers to use manure as crop fertilizer so as to utilize all the manure produced without creating disposal problems. The companies further indicated that there are ongoing discussions for them to conform strictly to the Environmental Management and Coordination Act, the Waste Management Regulations and other regulations. These regulations they said were not in place and are only introduced recently. The aim, according to the companies and other stakeholders in the industry, is to modernize the handling, transporting and disposal of various types of waste so as to protect human health and the environment.

The table and graphs below best illustrate the contents of the above findings and demonstrate the relation between land use and employment creation for each of the three sectors in the survey population.

**Table 6: Summary of land use and job creation by sectors**

| Agribusiness Sector | Land Use in Hectares | Employment Created | |
|---|---|---|---|
| | | Permanent | Temporary and Causal |
| Floriculture | 262 | 3,805 | 1,480 |
| Food crops | 2,293 | 1,405 | 1,292 |
| Dairy and Livestock | 213 | 217 | 32 |
| Total | 2,768 | 5,427 | 2,804 |

**Figure 12: Land Use (Ha) by sectors**

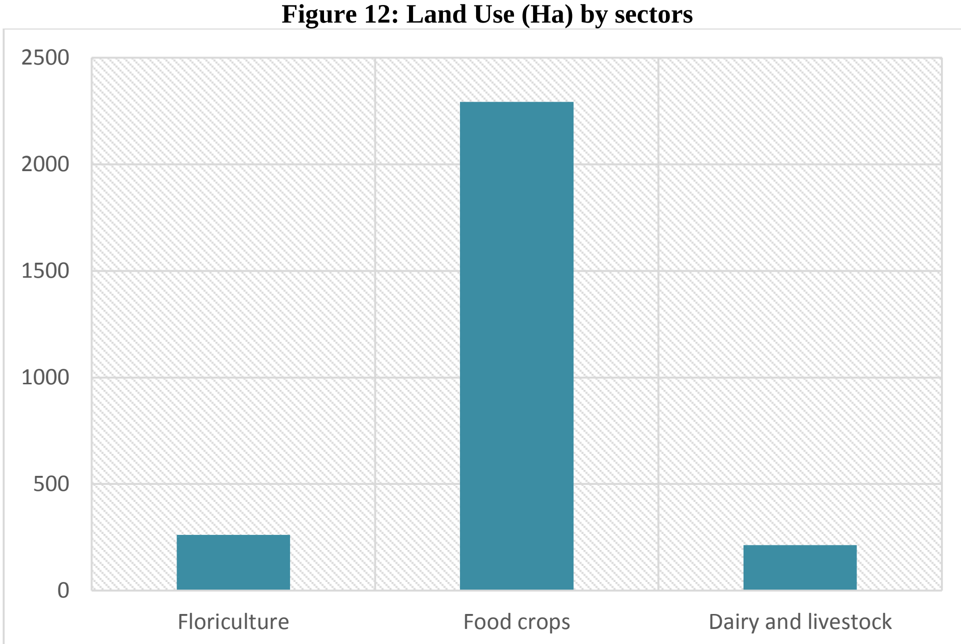
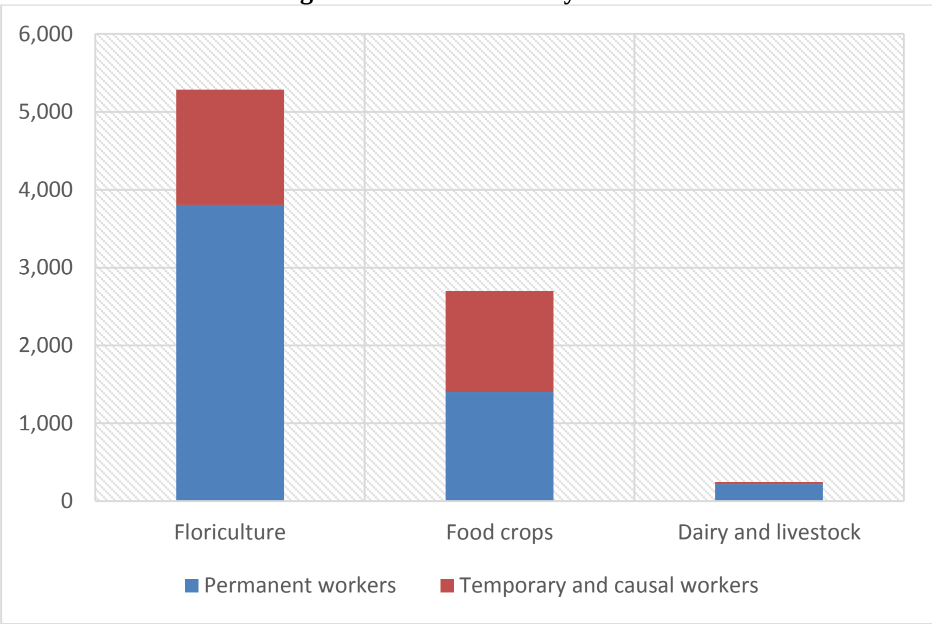


**Figure 13: Job creation by sectors**



# Chapter Six

## Responsible Business Practice of European SMEs

This research focused on in-depth analysis and discussions on the corporate responsibility of the 19 European entrepreneurs in the study. The chapter closely examined the social, economic and environmental responsibilities and how these impacts on the lives of local people and contributes to their local development. Also in this chapter is a discussion of the role of certifications scheme on responsible business performance and the factors driving this business responsibility.

### 6.1. Responsible Business

Guided by the research question *to what extent does the performance of European SMEs match with responsible business criteria?* The research at this moment turn to focus on the responsible practices of European investors active in Kenya agribusiness keeping in mind the three sectors covered in this study. The entrepreneurs were questioned of their involvement in responsible practices among the following stakeholder groups; employees, community, market relations (suppliers and customers), and the environment.  The results of this questions are presented below according to the above stakeholder groups.

#### 6.1.1. Employees

Majority of the European entrepreneurs view employment as a way of empowering the local people and therefore build good relations with employees. About 80% of the interviewee's stated that well-being of their employees is at the top of their business responsibility. When asked why so, most of the companies said employees are assets to the company and contribute to the operation of their business as production is not mechanized but labour intensive. Furthermore, the workers who are members of trade unions have been empowered through this collective organization placing workers in charge of their own improvement and could use strikes to demand for better conditions of service. When such actions are taken by employees it affects productivity and increases the cost of production. The most mentioned well-being activities for employees are; higher wages above the government minimum wages, housing, access to food, sanitation, clean water and health care.  In addition, many of the companies comply with national labour laws by providing health insurance, pension contributions, and labour regulation on holidays, medical leave and maternity. However, these compliances are requirements for all investors clearly stated in Kenyan labour laws and the KFC regulations. Thus, one could draw the conclusion that employee welfare activities being supported by the European companies are just based no compliance to national and certification laws and nothing more. This form of responsibility falls under Carroll's second hierarchy pyramid of CSR-legal responsibilities where businesses are call upon to obey society's laws and *"play by the rules of the game"* and also make profit in an acceptable manner (Carroll 1991).

Nevertheless, beside these formal employment statuses, majority of the entrepreneurs emphasized their involvement in informal corporate responsibility such as: educating workers on labour laws, environmental protection and issues on HIV/AIDS. European SMEs noted that training of employees on environmental issues is very important for them as all workers are expected to reduce or eliminate negative environmental impacts in the communities in which they operate. Additionally, capacity and team building trainings are offered to staff, and opportunity given for further education. Furthermore, provision of incentives such as bicycles, solar lamps, end of year packages and rewarding employees for achieving company objectives were mentioned as non-requirement by law. These responsibilities according to Europeans placed them ahead of their competitors, in particular the Indian and Chinese. This form of employee responsibility echoes the concept shared value as a form of responsible business advanced by Porter and Kramer (2011). They argued that companies create value by targeting different stakeholders in the value chain, focusing on resource management, water management, working condition, health and safety of employees, and by supporting local cluster development in the form of partnerships.

Another interesting responsible business practice was how some of the companies try to empower workers. Through fair trade projects, companies sponsor women employees in entrepreneurship skills like hairdressing, and business management aimed at making their voices heard. Still in line with this, one of the companies have established a micro credit scheme to give employees the opportunity to take loans without interest or at least with very low interest rates (depending on amount) for their personal development. The object of the scheme is to support workers to meet personal development goals and indirectly contribute to increase in production and efficiency if they are financially independent.

Regardless of the above corporate responsibility of European investors, the conditions of employees particularly in the flower and food and vegetable sector in Kenya agribusiness have come under constant criticism by stakeholders within the labour market and NGOs. These stakeholders are of the view that the monthly wages of workers are too low to live a decent life and take care of employee's basic needs such as food, housing and healthcare bills. They also raise concerns such as lack of motivations for workers, some form of sexual harassment of women, improper dismissal of workers and limited opportunities for workers to join trade unions. For example, an interview with a member of the Kenya Plantation and Agricultural Workers Union (KPAWU) revealed that the number of workers from the flower industry who are members of trade union is very low because employees are being prevented from joining union.

### 6.1.2. Community

Community involvement is one of the initiatives that echo a company's responsible business practices. Mostly, it refers to the structures and policies businesses have in place to support the community in which the companies operate either financial or in-kind assistance as well as contributions of time and knowledge, and often carried out in partnerships with NGOs. These activities may range from donations at the discretion of company management without an expectation of a profit return, to complex business and community partnerships that are incorporated into a business plans (Zappalà & Cronin, 2003). Regarding community involvement and well-being, there are also a number of CSR-related initiatives led or sponsored by Europeans companies. Majority of respondents (70%) interviewed confirmed their involvement with the surrounding communities. The surveys and interviews revealed that the most CSR practices receiving the highest share of corporate responsibilities in the communities were donations to health and medical provision, donations focused on education and training; education on HIV/AIDS; agriculture and food security; and deprived children (mostly orphanage run by European expatriates). Other donation goes to school activities as well as building of schools and clinics. The explanation for such benevolent activities appears to be closely tied to the entrepreneur's motivation to "give something back" to the communities in which they operate. For example, one respondent stated that "our businesses have the potential to impact the communities in which we operate so we believe in giving something back to the community to which we owe our existence'' This clearly highlight the relationship of community involvement and voluntary corporate responsibility. It is important to mention that these community activities are more on ad hoc basis without clear regulations or guidelines and also not integrated into core business practices. This form of practice perfectly echoes Matten & Moon (2008) conceptual framework of explicit corporate social responsibility of companies and Visser (2006) argument of less formalized or institutionalized nature of CSR in Africa, highlighted in the literature. And going back to Carroll's CSR pyramid, philanthropic donations by European SMEs lies at the top of the pyramid- philanthropic responsibility- be good corporate citizen.

Beyond philanthropic involvement, a more impressive community engagement observed was the collaboration between one company, USAID and Kenya Horticulture Competitiveness Project (KHCP) in training smallholder farmers to adopt good agricultural practices that increase their yields, incomes, and nutritional base. The goal, according to the company involved in the project, is to empower community farmers, particularly women and youth, to link into new markets, to be more profitable, and improve household livelihood and nutrition. This is an example of complex business and community partnerships that are incorporated into a business plans noted by Zappalà & Cronin (2003).This project, if well managed, has the potential of being a model for technological transfer among locals within Kenya's agribusiness sector. Aside these community activities, another aspect of corporate responsibility of European investors reported by some companies are community security projects. Some of the firms observed that they assist the police within their operational region with fuel and lorry tyres to aid security patrols. They claimed that this practice although illegal, but due to high level of corruption they have no choice than to comply with the demands of the police.

### 6.1.3. Customers and Suppliers

As a result of export market orientation of European SMEs in the agro-sector, customers and suppliers play an important role in the production process. Thus all the entrepreneurs strived to keep a good working relation with both customers and suppliers with varied suppliers and customers welfare activities. Predominantly in the flower sector, in order to meet international quality standards, all the enterprises in this sector purchase their main products from multinational cooperations based on individual transaction basis popularly referred to as local purchase order (LPO). The companies do also have some sort of relations with suppliers beside the quality and price of products such as; encouraging suppliers and smallholders to adapt to best practices and sustainable farming techniques respectfully. Obviously, the acquisition of inputs by flower firms from multinational companies does not encourage any form of technological spillovers to domestic flower farms. However, the relationship between European SMEs and domestic suppliers noted in the study have the potential of upstream technological transfer as European entrepreneurs may benefit from the efficient performance of intermediate goods from local suppliers. According to Javorcik (2004), this type of relationship creates backward linkages- that is, contracts between European enterprises and Kenyan suppliers might be the most possible source of spillovers. These spillovers may be through direct knowledge transfer from European SMEs to local suppliers. Also high demands for product quality from European SMEs help local suppliers to upgrade their technology and domestic firms will benefit from economies of scale as a result of foreign investment. In the case of customers, responsible activities turns to be on direct basis mainly; keeping a good business relationship with customers, cultivating good customer service, providing clients with information on enterprise performance, product development, sustainable processing technologies on products and packaging. Companies claimed they do well to respond effectively and efficiently to customers' demands on certification labels and standards especially on environmental issues. The section that follows discusses the environmental part of this claim.

### 6.1.4. Environment

It might seem that the environmental picture painted in the research findings does not look so bright because some few companies took advantage of the weak environmental institutional system in Kenya. This is especially true with small flower and food crop companies who either have basic waste management system, delay in submitting their environmental reports, and poor working conditions regarding pesticide spraying. Within the dairy industry too, smallholder farmers and informal traders have little awareness of environmental issues. Thus less is being done to protect the environment.  However, regardless of these short falls, majority of the European SMEs have greater concern for the environment and embrace a lot of eco-friendly techniques. A lot of these environmental improvements is closely linked back to the influence of certification schemes and international standards being demanded by customers and the Kenyan government. This is because, good environmental practices, according to the entrepreneurs, promote stronger sales and customer loyalty, raise productivity, and also, in a way, attract and keep employees. This view clearly reflects the arguments of Uddin et al (2006) and Baah and Tawiah (2011) that environmental concern and sustainable development constitute a key pillar of responsible business, making it an important topic of discussion in the past three decades in the business environment.

Environmental responsible activities of European investors include; the continuous improvement in resource management- water, land and energy- practices that reduce waste generation and eliminate the use and release of pollutant. In line with efficient resource use and conservation, some firms use LED lighting in green house as a way of reducing their energy consumption. Efforts are also made by these companies to maintain soil health, avoid soil degradation, soil contamination and erosion through sustainable farming practices such as; use of hydroponics to grow flowers, afforestation, and watershed management with community, minimize greenhouse gases emission and use of wet land to treat and recycle water for use.  To make their environmental responsibility sustainable, European companies have made efforts to involve suppliers, smallholders and out growers by training them in crop selection, sustainable farming techniques, production processes and environmental management. The aim is to make these local farmers and suppliers catalyst for positive change in the community. It will further help farmers to implement efficient and sustainable pest and disease management hence increase their crop yield and incomes. In addition, the European SMEs represented in the study engage in various forms of environmental philanthropic activities in communities where their companies are located and also support local groups dealing with environmental problems. These supports include promoting and preserving bio-diversity in areas, and providing monetary support for wide range of environmental and natural resource projects not directly related to their operations. These line of environmental responsibility of European SMEs according to Rondinelli et al (2000), is a way foreign companies contributions to sustainable development, and engaged with stakeholders in solving environmental problems being caused by their operations. They further argued that foreign companies also view direct business benefits from proactive environmental management in the form of lower costs, less risks and liabilities, and more efficient operations Rondinelli et al (2000).

For instance, in collaboration with Lake Naivasha Growers Group (LNGG), a local based organization made up of flower growers within Lake Naivasha region, European flower farms have developed a code of conduct for their operations. These codes include good agriculture techniques aimed at protecting the environment and supporting wild life conservation. Although these codes are voluntary, the companies comply with them. The collaboration between the firms and LNGG may be perceived as a long-term return the enterprises expect to gain by promoting sustainable development, including the preservation of essential resources and raw materials such as the lake Naivasha argued by Rondinelli et al (2000). They also supports LNGG to implement environmental projects such as tree planting, installment of cabbage bins with funding from members (European SMEs).

Contrary to the above environmental responsibility of these investors, stakeholders like Lake Naivashe Growers Group (LNGG), NGOs, employees, local communities, and environmentalist have most often accused European investors of impacting negatively on the environment. They (stakeholders) accused these investors of being responsible for the reducing water level in lake Naivasha and also polluting it; contaminating the soil with harmful chemicals and pesticides making it difficult for the land to be used for any other purpose of cultivation; and destroying wetland and natural habitats. As a result, bodies like; National Environmental Management Authority (NEMA) Kenya Flower council (KFC) Kenya Bureau of Standards have been asked to increase their environmental monitoring programs and also encourage companies to solve the problems related to water usage, use of harmful chemicals and pesticides and destruction of wetland.

## 6.2. Non-Dutch European SMEs versus Dutch SMEs

A review of the previous two studies on Dutch SMEs and responsible business stated earlier in the introduction and this research revealed a lot of similarities but few or no differences at all between Dutch and non-Dutch SMEs. In the first place, whereas public and interest stakeholders have played important roles in promoting responsible business through demands for strict enforcement of rules and regulations, most CSR activities and policies of Dutch and non-Dutch European SMEs in Kenya agribusiness takes place on a more ad hoc basis without strong guidelines recorded in documents. CSR is based on the willingness of these investors and, in some cases, results into duplication of CSR projects or concentration on one sector. Regardless of this, Dutch and non-Dutch SMEs are very much involved in much better social responsibilities: (good labour relation, better wages, healthcare provision education), economic responsibilities: (increase FDI investment, job creation, access to new markets and technological transfer) and environmental (employee training on environmental management, minimized use of harmful chemicals and efficient water, land and energy usage) than their competitors. Also, like the Dutch, most of the European entrepreneurs in this study mainly focus on the production and export of flowers, fruits, and vegetable with only a few in dairy production. The ownership and structure of their businesses is solely private limited enterprises (Ltd) with little or no involvement of the Kenyan government in their decision to start a business in the country but rather the influence of their respective embassies in Kenya. Furthermore, certification schemes have greater impact on their responsibility for the very fact that these schemes trace their origin to them. The differences between Dutch and other European SMEs in Kenya agro-sector seems to be more related to their size and market focus. Dutch SMEs are well established in Kenya's agribusiness particularly in the flower sector and mostly consisted of very large flower farms than companies from any other European countries. This is because Dutch entrepreneurs have vast experience in flower production and most of the companies in Kenya are the local branch of a Dutch parent company based in the Netherlands.

Apart from the similarities and difference discussed above, comparing European SMEs with local Kenyan firms in the same sector also painted a different picture. Domestic Kenyan firms are much smaller in every aspect of the production chain, employ less labour and also relied on family labour and generally pay lower wages, and also have low capital investment, and limited technology. According to some European entrepreneurs, the low wages being paid by Kenyan firms is leading to significant labor movement toward European companies. Also, market targets are different, Kenyan SMEs producing mainly for the local market while foreign investor target European and other international markets. Certification issues and other responsible business criteria are adopted mainly by the foreigners and a minority of domestic firms. The higher percentage of European companies implementing CSR criteria (social, economic and environmental management practices) in their operations, pointed out that responsible business is a high priority outside of Kenya. However, the few domestic firms adopting some sort of CSR practices in their operations should not be overlooked, but rather be encouraged to continue as this will eventually pull in others. Although there is still little agreement between businesses regarding CSR measurement in general Morimoto, Ash, and Hope (2005). A key pattern that run across all European SMEs within the three different sectors in the study is the use of the jobs provision to local people as their major measuring tool for their responsible practice and also contribution to local development. The

European entrepreneurs argued that employment provision couple with better salaries help the local people to meet their basic household needs.

### 6.3. Certification and Responsible Business

Guided by the third sub research question: *what is the role of certifications scheme in the performance of European SMEs*, this part analyzed the importance of certification schemes and international standards on responsible business. As a result of increasing demand by consumers, government institutions and relevant stakeholders on standards of products, certification labels motivate companies to be more responsible. Certification and standards within Kenya agribusiness is no longer optional as it was some years back but requirement for companies to sustain their access to the market and also protect their image. Interviews with farm managers and entrepreneurs in all the three industries repeatedly stated that consumers are demanding some sort of certification on products. Thus it was not surprising that almost all the interviewed European enterprises are certified by a range of different international and national certification labels and standards.

A large number (84%) of the interviewed European SMEs in Kenya agro-sector are certified by a range of different international and domestic certification labels and standards. The most common international certification used were: Good agricultural practices (GAP), Integrated pest management (IPM), Tesco Nature, Fair Flowers Fair Plants (FFP), Fairtrade, ISO standards, MPS (Milieu Project Sierteelt), Rain forest alliance and BOPP (British ornamental plants producers association). The remaining 16% have national certification labels certified by Kenya Flower Council (KFC), specific for the flower sector, and the Kenyan Bureau of Standards (KEBS) for the food crops and dairy and livestock. All these standards are primarily designed to reassure consumers on how food is produced by minimizing the detrimental environmental impacts of farming operations, reducing the use of chemical inputs and ensuring a responsible approach to worker health and safety as well as animal welfare. Furthermore, certification standards established good agricultural practices, social standard (labour laws) and environmentally responsible ways.

Logically therefore, certification schemes encourage and promote corporate responsibility as being a member of certification scheme enable companies to secure market access and long-term business opportunities and also greater influence on labour conditions. Certification codes clearly stipulate most of the improved working conditions and the more accreditation schemes a company has, the higher its standards. More so, standards enforce already existing but not practiced laws and regulations set by the government. For instance, randomized environmental impact audits by some firms due to low enforcement becomes regular and normal inspections. Not only does certification enhance responsible acts, but also promote sustainable development with in the region of operations. As companies with Fairtrade certified labels support local projects in health, education and food security with funding from consumers who have agreed to pay a little more above the normal price on Fairtrade products, the added fee is what is used to support local projects. The next section of this discussion is on the drivers of responsible business of European SMEs.

## 6.4. Drivers of Responsible Business of European SMEs

To identify what drives corporate responsibility of European investor in Kenya agribusiness, the drivers of responsible practices were examined. The study revealed that all the 19 companies in the sample made reference to some elements of social responsibilities in their operations; a few being more formalized and majority taking place on a more ad hoc basis without clear regulations and also not integrated into core business practices. This form of practice perfectly echoes Matten & Moon (2008) conceptual framework of explicit corporate social responsibility of companies and Visser (2006) argument of less formalized or institutionalized nature of CSR in Africa.

In line with Visser (2008) who suggested that the drivers for CSR are different in Africa, the companies in the study referred to different reasons as drivers of their responsible business practices. The majority (58%) entrepreneurs were motivated by acceptance in community, and pressure from employees and customers as the reasons for them to be responsible. These companies reasoned that investing in corporate responsibility activities associated with community, employees and consumers enhanced the growth and long term profit for the company. This is because consumers, workers and community (which include the environment) are the major stakeholders who determine what happens in the market. For example one respondent stated that *"we owe our existence and survival to the customers, employees and community"* stressing the point that these stakeholder relationship is strong. If this relationship is tainted by any of the party-society and business, there will be consequences- companies might lose their market base consumers. In addition, 26% of companies stated categorically that their motivation to act responsibly stems from the prospect of enhancing financial profits and growth. These companies view corporate responsibility as an instrument that improves competitiveness and contributes to profit-maximization. This idea did not seem to have a wide recognition by most European investors. The remaining 16% indicated compliance with law as the reason they strife to make their business responsible. The above findings indicated that CSR activities among European investors in Kenya's agribusiness is shifting from the traditional school of thought- business responsibility, which is that of maximizing profits to shareholders, to the emerging view of responsible business- which ague that companies have wider responsibilities that extend beyond owners and shareholders to include employees, customers, suppliers and host communities (multi-stakeholders) Adeyeye (2012). It further indicated that employees, customers and the community (including environment as it cannot be separated from society) are considered to be extremely important for the survival of every company and are ranked high in the responsible business practices. This is stems from the fact that the advantages companies get from being proactive, employee relations, customers care, and environmental management includes lower production cost, less risks and legal responsibility.

**Figure 14: Drivers of CSR of European companies in Kenya**


## 6.5. Corporate Responsibility and Sustainable Local Development in Kenya

"*Ideally, sustainability has gained prominence comparable to that of democracy, freedom and justice: it is generally desired, differently understood, complex in scope, extremely difficult to establish and impossible to do away with*" Voigt (2009). The above quotation Suggest that no nation on this planet earth would assert any longer not to be pro sustainable, and strive to find the correct balance of environmental, social and economic conditions to foster sustainable development. The Kenyan government and all stakeholders active in the agribusiness try to find a way of enhancing sustainability in the sector. But the question is *"what is the impact of the agribusiness of foreign investors on Kenya's development?"* Discussing the contributions of European SMEs to sustainable local development is a more dicey debate as it is difficult to determine whether their responsible business practices have a more negative or positive impact on local development. But regardless of this difficulty, what is certain, however are the local developments that have transpired within the surroundings of the company's operations and the implications these have had on the local people. These impacts- socio-economic and environmental, within the local areas need to be highlighted so as to enable companies to limit the negative consequences and increase the positive impacts, in order to promote more sustainable local development. The next sections discusses the economic, social and environmental development through corporate responsibility of European SMEs in Kenya agribusiness.

### 6.5.1. Economic Development

Economically, the investments made by European entrepreneurs in Kenya agribusiness are of great value to the national economy and the local people. These investments either short or long term often leads to secured jobs for local Kenyans and the possibility for them to learn through technological transfer. European companies play a major role in creating productive and decent jobs that support the socio-economic needs and aspirations of local people and their societies. Whether small, medium or large, companies, the European investors who operate them play a major fundamental role in promoting growth, job creation, and poverty reduction in Kenya. Statistically, the 19 companies in this study alone provide a total of 5,427 permanent jobs, 2,804 temporary jobs and 420 causal. Although some might argue that these numbers are small compared to the population density of the operation area of these firms coupled with the low paid salaries, it is worth noting that these companies obey employment laws and make provisions for job security, medical insurance, sick leave, maternity leave and pension scheme. In addition, the jobs enable workers to raise their families and send their children to school, provide access to social protection for them and their relations and put them in a respected position where they have a voice to negotiate and demand for better conditions. Furthermore, these jobs are located in remote communities that previously had no jobs at all and the sole means of income was small scale farming.

The presences of European SMEs have also triggered a technological spillover and linkages between investors and local people mostly the farmers. Linkages according to Wilson (2009) are a tried and tested method by which SMEs in the country of investment can benefit from foreign investors. When outsiders invest in a country, it has three options for the procurement of inputs in that country: import, produce locally in-house, or procure from a local supplier. In the case of Kenyan agribusiness, the use of local farmers as suppliers through out-grower schemes is having great influence on the transferal of skills, knowledge and technology from European SMEs to local suppliers, farmers and businesses. Interview with stakeholders and local Kenyan SMEs revealed that domestic firms have improve their efficiency by copying technologies of foreign industries operating in the agro-sector. Furthermore some local companies have hired workers trained by European SMEs resulting in knowledge spillovers. Technological transfer and spillovers of European SMEs on local enterprises is summarized below based on the study.

**Figure 15: Technological spillover and benefits of European SMEs in Kenya agribusiness**

**Benefits to local enterprises/ community**

- Knowledge transfer and technology advancement
- Skills, capacity and standards improvement
- Access to new markets, domestic and foreign
- Prospects for further FDI investments especially into cluster
- Diversification of customer and market structures
- Risk-sharing through joint funding and operations
- Access to finance
- Opportunities to up-grade innovate and increase competitiveness.
- Increase in local business activities growth and turnover

**Benefits to European**

- Reduction in procurement, production and distribution costs.
- Local credibility and reputation.
- Greater integration in domestic markets.
- Increase in knowledge and access to local consumers.
- Access to new innovation
- Import substitution and foreign exchange savings.
- Greater flexibility in changes to design and production because supply is local

Source: Adapted from IFC (2007) Business Linkages with modifications.

### 6.5.2. Social Development

The social development of European investors in Kenya agribusiness relates to employee relations, gender ratio in employment generation and the companies' involvement in community activities. Generally all the companies invested in their employees and their dependents as previously discussed. The companies also supported surrounding communities through donation to charity homes, hospitals and school activities. Implying that not only the workers of companies benefited socially but entire communities did benefit from responsible business practices of companies, and thus an expression of a better future. Another interesting social development is link to gender empowerment and household management claimed by European investors. Close to 70% of workers in the three sectors in this research are women and this is a form of empowerment and also promote local development. For it is widely argued that empowering women through jobs may not just be a well-meaning objective in its own right, but may in fact stimulate overall socio-economic development. This is due to the argument that a rise in women's access to income is associated with an increase in a segment of household expenditures on; food, better nutritional base of children, children education, clothing, improvement in child health and increase in property holding (Hoddinott and Haddad, 1995; Duflo and Udry, 2004; Bobonis, 2009). These assertions that women are most likely to spend a fair amount of their income on household expenditure are interesting but were not verified by the present study. This subject will perhaps interest anthropologists or development economist in a different study in the future.

It is important to also state the negative social impacts the presence of European SMEs has created within the lake Naivashe region. There have been mass migrations of potential job seekers from all parts of Kenya (both rural and urban) to the lake region. This influx of these people have led to the development of shantytowns, unsustainable use of water resources, destruction of wildlife in the area, high level of crime, social vices and increase in food prices. Also the increasing population is creating tension between different ethnic groups. Furthermore, competition for land and water resources has been aggravated between local cattle farmers and European agro-investors. The increasing number of firms leading to rising towns and unplanned settlements directly pushed cattle farmers out of their grazing lands to more far and less fertile lands. In addition, farms established all over the banks of the lake has blocked the passage, limiting cattle access to water source and resulting in tensions and sometimes conflicts from two quarters; between local herders for scares water and the European SMEs.

**Case study of women empowerment and sustainable development**

Some out growers women's group under the company "F" involved in USAID-KHCP project discussed previously had training support from USAID to set up yellow passion fruit farm with 3,600 seedlings in 2011. The group has since 2011 sold about 18,000kg of passion fruits estimated at $10,380 to the local market. The proceeds from the sale have been use to establish a propagation farm with the capacity of holding 10,000 seedlings. These ventures not only provide income and empowerment to the women, but also serve as a source of high quality seedlings to local farmers thus promoting sustainable development within the fruits sector.

### 6.5.3. Environmental Development

Although the Kenya agribusiness especially flower sector within the last couple of years have gained a lot of negative media publicity for labour and environmental abuses, much better can be said now in terms of environmental development as European investors have taken steps to address and improve their environmental responsibilities. Most of the companies aim to have "zero net impact" as their environmental standards and are committed to making a sustainable contribution to environmental recovery and resilience. Much effort is invested in areas like; efficient land use, water extraction and energy consumption. There are also investment in sustainable irrigation systems, greenhouse technology, and low $CO_2$ emission- all of which are aimed towards long term sustainability.

Furthermore, as a result of certification schemes in which consumers are demanding more environmental friendly methods of production, a lot of companies have set up environmental management systems in which issues related to quality, health and safety, waste management, and recycling are integrated in to the system. This mechanism puts European SMEs in a much better position than other non-European investors like the Indians, Chinese and some of the Kenyans engaged in agribusiness. The codes of conduct from the various schemes also force companies to keep records of pesticide and fertilizer, reduce the use of harmful chemicals and also only use "green label" chemicals and fertilizers. A few companies in collaboration with the community are active in natural conservation activities and training of community members on sustainable environmental management so as to reduce or remove negative environmental impacts on the communities in which they operate.

However, it is important to note that European investors in the agro-sector have received condemnation for their negative impact on the environment by some stakeholder groups. The lake Naivashe region is considered an important international wetland region (Government of Kenya 2012). Therefore, most of these criticisms emanate from how these companies use water, land, and carbon emission within the lake Naivashe region. Most firms have been condemned for their unsustainable use of water from the lake and polluting it with dangerous chemical. Also, there are concerns of carbon emission from greenhouse use for flowers and crop production, increase in population growth due to flower farms resulting in pressure on marginal lands and other natural resources and the degradation of critical habitat for an endangered species.

# Chapter Seven

## 7.1. Research and policy recommendations

This research was conducted on European SMEs and the findings clearly indicate that European investors in Kenya agribusiness are actively engaged in different forms of social, economic and environmental responsible operations. Although only a few are more formalized and majority taking place on a more ad hoc basis without clear regulations and guidelines, the European investors claimed to be doing better than their competitors (Indians, Chines and Kenyans). On these bases, it will be interesting to research in to corporate activities of these investors- the Indians, Chines and Kenyans as these players have a significant share and influence in Kenyan agribusiness.

In addition, given that all the three sectors covered in this study largely depended on water and land for their major part of production and have negative impact on environment, stricter environmental regulations are needed. This is much desired in the flower sector as this sector depended mainly on the lake Naivasha. Waste management, pesticides and chemical control, effective water management and sustainable farming methods should be the top priority of government environmental agencies like NEMA.

Although certification schemes have positive impact on responsible business as they have forced the companies to improve their working conditions and reduces their environmental effects. But these certifications remain voluntary thus there will be some investors that do not adhere to them. Also the non-existent of strong CSR regulatory framework at the national level to enforce standards and regulations make some investors unwilling to implement them. It is therefore recommended that if government could find a way of making certifications mandatory for all investors in the agribusiness and other sectors of the Kenyan economy.

## 7.2. Conclusion

This research investigated how European SMEs in the Kenyan agribusiness industry practice responsible businesses and how these practices contribute to sustainable local development. Also, the study assessed whether these European companies complied with responsible business practices by looking at their socioeconomic and environmental commitments. Specific focus was placed on the characteristics of European SMEs, the performance of European SMEs and how it matches with CSR criteria, and the factors that drive their responsible business behavior. Also important in this research was to what extent the corporate responsibility of these SMEs contributes to sustainable local development in Kenya. The fundamental research question explored in the study was:

*What is the performance of European SMEs in Agribusiness in Kenya in terms of responsible business behaviour and to what extend do they contribute to sustainable local development?*

The study results revealed that European entrepreneurs are engaged in responsible business practices in a variety of ways which have a positive impact on sustainable local development of the local communities within where the enterprises operate. These responsible practices were centered on employees' well-being, community involvement, environmental protection and consumers and suppliers relation. On the aspects of workers welfare, the findings suggest an improvement in labour conditions. Majority of the interviewees stated that the well-being of their employees is at the top of their business responsibility. And the most mentioned activities for employees are; payment of better wages, provision of housing, ensuring that all employees and their resident dependents have access to food, sanitation, clean water, health care and children education. In addition, many of the companies comply with national labour laws by paying employees medical insurance, pension contributions, and labour regulation on holidays, medical leave and maternity. However this compliance are requirements for all investors thus one could draw the conclusion that employee well-being activities supported by the European companies are just in compliance to national and certification laws.

Related to community involvement, corporate responsibility are mostly philanthropic toward certain projects- donations to health and medical provision, donations focused on *"education and training; HIV/AIDS; agriculture and food security; and disadvantaged children"* as reviewed in KMPG report (2012) (mostly orphanage run by European expatriates). Donations to school activities were also identified as the companies' community involvement. In addition, the research environmental results indicated that increasingly more farms are looking into sustainable environmental practices. Companies have taken steps to address and improve upon their environmental responsibilities. Most of the companies aim to have "zero net impact" as their environmental standards and commit to making a sustainable contribution to environmental recovery and resilience. Much effort is invested in areas like; efficient land use, water extraction, energy consumption, and sustainable irrigation systems.

In the area of drivers and certification schemes of these SMEs, findings from the study suggested that as a result of increasing demand by consumers, government institutions and relevant stakeholders on standards of products, certification labels motivate companies to be more responsible. All European enterprises are certified by a range of different international and national certification labels and standards. Concerning the factors that are drivers of responsible business, the majority (58%) entrepreneurs were motivated by drivers as acceptance in community and pressure from employees and consumers. Others also stated that their motivation to act responsibly stems from prospect of enhancing financial profits and growth, while few companies view compliance with law as the reason they strife to make their business responsible.

Relating this corporate responsibility of European SMEs to the developmental impacts reveals both positive and negative issues. On the environmental part, the negatives seem to outweigh the positives although there are some who think order wise. Contrary to this, from a socio-economic perspective, the positives far outweigh the negatives. The socio-economic development impacts include: the creation of productive and decent jobs that supports the socio-economic needs and aspirations of local people and their societies. Also European investment promote growth, knowledge transfer and technology advancement, skills, capacity and standards improvement, access to new markets by domestic companies, the prospects for further FDI investments and poverty reduction. In addition, as majority of workers in the three sectors in this research are women, the businesses contribute to gender empowerment and could promote local development. For it is widely argued that empowering women through jobs may not just be a well-meaning objective in its own right, but may in fact stimulate overall socio-economic development (Duflo and Udry, 2004; Bobonis, 2009). By and large it can be said that responsible business practices of European SMEs in Kenya’s agribusiness seem to have a positive developmental impact as it improves products quality, promotes better environmental practices, and better working conditions and salaries for employees.

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**Appendix 1:**

**List of interviewed European companies**

| | Companies | Ownership | Sector |
|---|---|---|---|
| 1. | Finlay's Horticulture Kenya Ltd | British (100%) | Flowers |
| 2. | Harvest Ltd | British (95%) British (5%) | Flowers |
| 3. | Mace Food Ltd | Italian (75%) Kenyan (25%) | Food crops |
| 4. | Lowland Vegetables growing Company | Kenyan (50%) British (50%) | Food crops |
| 5. | Lamorna Ltd | British (-) Kenyan(-) | Flowers |
| 6. | Agri-venture Ltd | Kenyan(majority shares) British(-) | Food crops |
| 7. | Wildfire Ltd | Austrian (60%) Others (40%) | Flowers |
| 8. | Kakuzi Ltd | British (-) Kenya (-) | Dairy and livestock |
| 9. | Tropiflora Ltd | German (50%) Swiss (50%) | Flowers |
| 10. | Alfamax Ltd | British(-) Kenyan (-) | Food crops |
| 11. | Nini Ltd | Dutch (30%) British (70%) | Flowers |
| 12. | Equator Kenya Ltd | German (50%) Dutch (50%) | Food crops |
| 13. | Exotic EPZ Ltd | American (50%) British (50%) | Food crops |
| 14. | Equinox Horticulture Ltd | British (-) British (-) | Flowers |
| 15. | Afriscan Kenya Ltd | Danish (95%) Kenyan (5%) | Flowers |
| 16. | Redwing Ltd | Kenyan (70%) British (30%) | Flowers |
| 17. | Highlands Conners Ltd | Kenyan (80%) British (20%) | Food crops |
| 18. | Redland Roses Ltd | Belgian (-) French (majority) | Flowers |
| 19. | Marula Estates | Italian (100%) | Dairy and livestock |

**Appendix 2:**

**List of interviewed stakeholders**

National Environmental Management Authority

Horticulture Crop Development Authority

Fresh Produce Exporters Association of Kenya

Kenya Flower council

Kenya Bureau of Standards

Lake Naivashe Growers Group

Workers

NGO

**Appendix 3:**

**Survey**

**Survey on European investors in Kenya Agribusiness**

***Topic*: Corporate social Responsibility and sustainable local development: A case study of European SMEs in Kenyan agribusiness.**

Survey No………......................................Date...........................................................................

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 Kenya. This survey which partly builds on previous researches is to investigate how Corporate Social Responsibility is understood and implemented in Kenya focusing keenly on the operations of European SMEs in the agribusiness.

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 12 questions which should provide me with some basic information about the current state of affairs within your enterprise (overview characteristics of the enterprise) and more especially on your responsible business operations. I kindly ask you to elaborate on the open questions.

I guarantee that the results of the survey will be confidential and processed anonymously.

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

**1. Characteristics of Owners/Managers**

| A. Nationality | B. Residence | C. Age & Gender | D. Education |
|---|---|---|---|
| **What is your nationality?**<br><br>1. ……………….....<br>2. ……………….....<br>3. ……………….....<br>4. ........................... | **How long have you been living in this country?**<br><br>**How many weeks do you spend in Europe each year?** | **In what year were you born?**<br><br>**What is your sex?**<br><br>0 Male 0 Female | **What is your educational background?**<br><br>**What is your professional background?**<br><br>**Owner only:**<br>**Why did you decide to start this enterprise in this country?** |

**2. Characteristics of Enterprise (I)**

| A. Products and Services | B. Sector | C. Value Chain |
|---|---|---|
| **What are your main products or services?** | **In which branch of the agro-sector is the enterprise active?** | **In what activities is the enterprise involved?** |

| | | |
|---|---|---|
| Please specify: | 0 Poultry<br>0Food crops (fruits, vegetables, grains, nuts)<br>0 Non Foods<br>0 Floriculture<br>0 Dairy<br>0 Other: | 0 Machinery/Engineering<br>0 Fertilizers/pesticides<br>0 Seeds<br>0 Services/Consultancy<br>0 Other supplies<br>0 Research and Development<br>0 Farming<br>0 Storage<br>0Processing and Manufacturing<br>0 Packaging<br>0 Retail<br>0 Transport<br>0 Trading and Exporting<br>0 Other: ………….. |

**3. Characteristics of Enterprise (II)**

| A. Status | B. Ownership |
|---|---|
| **What is the status of the firm with respect to others?**<br><br>0 Single establishment firm<br>0 Parent company<br>0Local establishment of parent company<br>0 Joint venture, partnership<br>0 Other: …………………. | **Who are the owners of the firm (people/legal entities) and what nationality do they have?**<br><br>Name Equity share Nationality Country of residence<br>1.<br>2.<br>3.<br>4. |

**4. Enterprise Development**

| A. Start | B. Past Development | C. Future Development |
|---|---|---|
| **Which year was the firm founded?**<br><br>Year:<br><br>**What year did the firm start its operations in this country?** | **Has the enterprise expanded (+), remained constant (0) or declined (-) over the past 5 years in terms of:** (please circle)<br><br>Turnover + 0 –<br>No. of workers + 0 –<br>No. of locations + 0 –<br>No. of clients + 0 –<br>Labour costs + 0 –<br>New product(s) + 0 –<br><br>**What is the percentage of expansion/ decline?**<br><br>Specify: ...................% | **Do you expect the firm to expand (+), stay constant (0) or decrease (--) in the next 5 years?**<br><br>Turnover + 0 –<br>No. of employees + 0 –<br>No. of locations + 0 –<br>No. of clients + 0 –<br>Labour costs + 0 –<br>New product(s) + 0 –<br><br>**What is the expected percentage of expansion/ decline for the next 5 years?**<br><br>Specify.........................% |

| | | |
|---|---|---|
| | **Why these expansion/decline/unchanged?** | **Why will there be expansion/decline/unchanged?** |

**5. Financial Situation of Enterprise**

| A. Public Investment | B. Private Investment | C. Turnover |
|---|---|---|
| **From which public channels does the enterprise receive external funding?**<br><br>0 Not Applicable<br>0 Subsidy home country<br>0 Subsidy host country<br>0 Grants<br>0 Others: ........................<br><br>**And what is the name of each subsidy/grant?**<br><br><br>Please specify: | **From which private channels does the enterprise receive external funding?**<br><br>0 Local bank loans<br>0 Bank loan from country of origin<br>0 International bank loans<br>0 Local bank subsidized loans<br>0 Subsidized loan from country of origin<br>0 International bank subsidized loans<br>0 Social private equity investments<br>0 DFI (Development Fund Investor)<br>0 Others: ................................................<br><br>**And what is the name of the private funding?**<br>Please specify: | **What is the average annual turnover of the enterprise over the past 5 years?(US $)**<br><br>0 Less than 7.000<br>0 7.000 – 35.000<br>0 35.000 – 70.000<br>0 70.000 – 135.000<br>0 135.000 – 350.000<br>0 350.000 – 700.000<br>0 More than 700.000 |

**6. Characteristics of Market (Suppliers and Customers)**

| A. Suppliers | B. Customers |
|---|---|
| **Who are your main suppliers? What are their names, size, location and what do they supply?**<br><br>Size Name Item supplied Location<br><br>1234 ……………… …………………… ………………<br>1234……………………………………… ………………<br>1234……………………………………… ………………<br>1234……………………………………… ………………<br>1234……………………………………… ………………<br>1234……………………………………… ………………<br><br>1 = Micro Enterprise<br>2 = Small to Medium Enterprise<br>3 = Large Enterprise<br>4 = Multinational | **Who are the main clients for which the enterprise produces or delivers its products/services?**<br><br>Name Location<br>1.<br>2.<br>3.<br>4.<br>5.<br><br>**What share of the product/service goes to each of these markets?**<br><br>Markets Percentage<br>Local markets ...........%<br>National markets (Kenya) ............%<br>African markets ............%<br>European markets ........….%<br>Other International markets (everything out of Africa and Europe) .........% |

| | |
|---|---|
| | |

**7. Characteristics of Market Relations**

| A.SUPPLIERS |
|---|
| **What is the nature of your relations with suppliers?**<br><br>**Purchasing relations with main suppliers:**<br><br>**0** Arm's length (individual transactions, no company-to-company relationship)<br>**0** Contract basis (periodical delivery, longer-term relationship)<br>**0** Contract basis including product specifications (same, including exchanges on product design)<br><br>**Other relations with suppliers:**<br><br>0 Technology transfer on products, production process<br>0 Training in skills and knowledge<br>0 Technical cooperation, joint product development and production<br>0 Staff placement<br>0 Financial support (credit, loans)<br><br>**Is compliance with standards and certification schemes a factor in your selection of suppliers of goods and services?**<br>0Yes 0Somewhat 0Not really 0No<br><br>**If so, which ones?** |

| **To what extent do you agree with the following statements on the firm's activities?**<br><br>**1 = not at all 2 = not really 3 = undecided 4 = Somewhat 5 = Very much** | | | | | |
|---|---|---|---|---|---|
| How do you deal with….? | 1 | 2 | 3 | 4 | 5 |
| Our procedures are such that all suppliers and contractors are routinely paid in accordance with agreed terms. | | | | | |
| Our firm supports its suppliers in improving their environmental, social and economic performance | | | | | |
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Our firm has standard procedures to determine the needs of its stakeholders (complaint books, feedback mechanism) | | | | | |

| B.CUSTOMERS |
|---|
| **What is the nature of your relations with customers?**<br><br>**Sales relations with main customers:**<br><br>0 Arm's length (individual transactions, no company-to-company relationship)<br>0 Contract basis (periodical delivery, longer-term relationship)<br>0 Contract basis including product specifications (same, including exchanges on product design)<br><br>**Other relations with customers:**<br>0 Technology transfer on products, production process<br>0 Training in skills and knowledge<br>0 Technical cooperation, joint product development and production<br>0 Staff placement<br>0 Financial support (credit, loans)<br><br>**Is compliance with standards and certification schemes a consideration in securing deals with your customers?**<br><br>0Yes 0Somewhat 0Not really 0No<br><br>**If so, which ones** |

| To what extent do you agree with the following statements on the firm's activities:<br><br>1 = not at all 2 = not really 3 = undecided 4 = Somewhat 5 = Very much | | | | | |
|---|---|---|---|---|---|
| How do you deal with….? | 1 | 2 | 3 | 4 | 5 |
| The firm has a formal procedure to respond to client demands or complaints | | | | | |
| The firm takes the needs of the poor as customers into account when developing new products and/or services. | | | | | |
| Product/service specifications are made clear, including quality, total cost, delivery charges and time schedule | | | | | |

**8. Use of local resources (Part I)**

| **A. Labour** | |
|---|---|
| **How many people does the firm (this establishment) employ in all?**<br><br>..............................................<br><br># Permanent: .........................<br><br># Temporary: ........................<br><br># Casual: ...............................<br><br>**What is the gender division of staff?**<br><br>Male: .......................<br><br>Female: ...................<br><br>**What share of staff is local? (or use count)**<br><br>Local: .................% | **How does pay of workers compare to average pay in the area? (in percentage + or -)**<br><br>**Has this changed over time?**<br><br>**What are the normal daily working hours?**<br><br>**How many holidays/ free days do the employees receive?**<br><br>**How many employees are members of a Trade Union?**<br><br>**What are the arrangements for medical leave?**<br><br>**What are the arrangements for medical insurance?** |

| | |
|---|---|
| Foreign: ....................... %<br><br>**Details on foreign staff:**<br><br>**From which country?** **What function?**<br>1.<br>2.<br>3.<br>4.<br>**What percentage of the employees is male and female?**<br><br>M: .................%<br>F: ...................% | **What are the arrangements for maternity leave?**<br><br>**What are arrangements for social security?**<br>**- Old age**<br>**- Unemployment**<br>**- Disability** |

| **B. EMPLOYEES RELATIONS** | | | | | |
|---|---|---|---|---|---|
| Does the firm take specific initiatives for the well-being of its workers?<br>Please specify: | | | | | |
| Does the firm invest/promote training/education for its workers?<br>Please specify: | | | | | |
| **To what extent do you agree with the following statements on the firm's activities?**<br>**1 = not at all 2 = not really 3 = undecided 4 = Somewhat 5 = Very much** | | | | | |
| | 1 | 2 | 3 | 4 | 5 |
| Health and safety regulations on the workplace are always enforced | | | | | |
| There is a procedure to monitor compliance with relevant employment laws and regulations. | | | | | |
| There is a procedure to ensure that no forms of harassment, bullying or discrimination are tolerated. | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| There is a procedure to ensure open communication with workers (handling complaints, employee rights). | | | | | |

**9. Use of local resources (Part II)**

<table>
<tr><th colspan="2">A. Land, Water, Energy and Pollution</th></tr>
<tr><td>

**How many hectares of land does the enterprise have in total?**

**What is the tenure status of the land?**

0 Privately Owned ha:

0 State Owned ha:

0 Leased ha: years:

0 Community/customary ha:

**How was the land acquired?**

0 Private purchase/lease

0 Through government

0 Through local dignitaries (chiefs etc.)

0 Through local partner

0 Other: …………….

**What is your main use of water?**

0 Irrigation

0 Production, processing

0 Household/office type consumption

**In case of irrigation and production water use, how much water does the enterprise use each year?**

</td><td>

**What is the main source of energy?**

0 public supply system

0 private supply system

**What is your main use of electricity?**

0 processing, production

0 office-type consumption

**How much electricity does the enterprise use each year (KWh)?**

**Does the firm share this source with the surrounding community?**

**Is there a procedure in place to monitor pollution/emissions by the firm?**

Please specify:

**Does the enterprise keep records of pesticides and chemicals used?**

</td></tr>
</table>

| | |
|---|---|
| **How many months a year does the enterprise use irrigation?**<br><br>**What is your main source of water?**<br>0 Rainfall<br>0 Rain harvesting system<br>0Surface water (canals, rivers and streams, ponds & lakes)<br>0 Ground water (boreholes, springs)<br>0 Tap water<br>0 Other…………………………….. | **How much fertilizer does the enterprise use (kg/ha)?**<br><br>**Does the enterprise have a functioning waste management and pollution prevention programme in place?**<br><br>**Is there a negotiated compensation to the surrounding community for the use of infrastructure and resources?** |

| **B. ENVIRONMENT** |
|---|
| **What assessments have been conducted before starting operations?**<br><br>0 Environmental impact<br>0 Social impact<br>0 Soil/fertility impact |
| **What does the firm do to limit its impact on the environment?**<br>Please specify: |
| **To what extent do you agree with the following statements on the firm's activities?**<br>**1 = not at all 2 = not really 3 = undecided 4 = Somewhat 5 = Very much** |

| How do you deal with….? | 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 | | | | | |
| 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 | | | | | |

**10. Community relations**

| **COMMUNITY** | | | | | |
|---|---|---|---|---|---|
| In what way is the enterprise involved with surrounding communities?<br>Please specify: | | | | | |
| | | | | | |
| **To what extent do you agree with the following statements on the firm's activities?<br>1 = not at all 2 = not really 3 = undecided 4 = Somewhat 5 = Very much** | | | | | |
| | 1 | 2 | 3 | 4 | 5 |
| The firm actively support community projects and activities | | | | | |
| The firm is involved in improving social infrastructure and living conditions in the area | | | | | |
| Where activities have a potentially significant impact on the community, the enterprise has procedures to minimize the negative impacts. | | | | | |
| The enterprise engages in meaningful dialogue with the community where there are concerns about its products, services or operations | | | | | |
| The enterprise is engaging in local development because this has a positive effect on profit. | | | | | |

**11. Responsibility**

| **Stakeholder influence<br>Which stakeholders are most important in determining how responsible your business is?<br>1=Extremely 2=Slightly 3=Neither 4=Slightly 5= Extremely** | | | | | |
|---|---|---|---|---|---|
| | Negative | | | | Positive |
| | 1 | 2 | 3 | 4 | 5 |
| Investors/financiers | | | | | |
| Government | | | | | |
| Local Groups and Organizations | | | | | |
| Clients and Customers | | | | | |
| Employees | | | | | |
| Community | | | | | |
| Suppliers | | | | | |
| Environmental Changes | | | | | |

**12. Responsible Business (Drivers)**

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

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: