

RESPONSIBLE INVESTING IN KENYA

Linking the Sophistication of Financial Markets in Kenya with the Possible Creation of a Sustainability Index

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ABSTRACT

Kenya has over the last few years witnessed tremendous growth as an emerging market with the GDP growing at 5% and the capital markets having a year on year growth of 19%. Despite the growth and sophistication of the financial markets, a host of hurdles have kept Kenya off the mainstream Responsible Investing agenda. This has resulted in no Socially Responsible Investment (SRI) fund assets and none of the market players being signatories to the United Nations Principles for Responsible Investing (PRI).

One of the building blocks to this journey could be introducing a Sustainability Index for listed companies on the Nairobi Securities Exchange (NSE). This would form a basis for integrating Environmental, Social and Governance (ESG) aspects into the private sector and other proponents of the society, including the public sector.

This research is thus aimed at linking the growing sophistication of the financial markets in Kenya with the possible creation of a Sustainability Index. In this sense, financial markets are seen to have the power to affect social, economic, and environmental outcomes in which a Sustainability Index could become a good tool in measuring such outcomes.

The study adopted a qualitative research design which was used to obtain information based on the key research questions of the study.

The research findings suggest that Responsible Investing (RI) is understood within the realm of business ethics and corporate governance. RI is inferred to as a manner of doing business that goes beyond short term financial returns and also takes into account the needs of other stakeholders. ESG aspects identified from the study provide for the requisite issues out of which a Sustainability Index can be developed for measuring the impact of Responsible Investing.

Within the framework of a Sustainability Index, it is clear that companies will be made more accountable; redefine their corporate boundaries and through shared value, measure the social and environmental impact of their business model. However, there is still need for increased awareness on RI, stakeholder activism and an improved regulatory framework. Embedding Responsible Investing in Kenya will entail understanding the system of actors, so as to look at opportunities of Creating Shared Value whilst setting this up in the right disclosure model.

Key Words: Responsible Investing | Kenya | Financial Markets | Sustainability Index

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GLOSSARY OF TERMS

ATS -	Automated Trading System
CMA -	Capital Markets Authority
CDP -	Carbon Disclosure Project
CSR -	Corporate Social Responsibility
CDS -	Central Depository System
DJSI -	Dow Jones Sustainability World Diversified Index
ESG -	Environmental, Social and Governance
FTSE -	Financial Times Stock Exchange
GCI -	Global Competitiveness Index
IMF -	International Monetary Fund
LASFF -	Latin American Sustainable Finance Forum
NEMA -	National Environmental Management Agency
NSE -	Nairobi Securities Exchange
NSSF -	National Social Security Fund
OTC -	Over-The-Counter
PRI -	Principles for Responsible Investment
RBA -	Retirements Benefit Authority
RI -	Responsible Investing
SRI -	Socially Responsible Investment

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1. INTRODUCTION

1.1. Research Area

In making a decision, investors are faced with a social dilemma in which the greed in achieving higher gains (i.e. profit) may lead to irresponsible investments (Adam and Shauki, 2014). Since the 'Brundtland Report' of the United Nations World Commission on Environment and Development (1987), the concept of sustainability has become a fundamental component of environmental and development policy. Responsible Investing (RI) has thus become one of the ways of accounting for sustainable development by taking into account environmental, social and governance issues of firms in the investment decision (Cerin and Scholtens, 2011). Reports by the Forum for Sustainable and Responsible Investment (2012) indicate that the Principles for Responsible Investment¹ has more than 1,000 signatory firms—with assets of over \$30 trillion—estimated to represent 20 percent of the total value of global capital markets. These signatories include not only the pioneers of sustainable and Responsible Investing, but also more conventional investment firms that are beginning to develop SRI divisions or to analyze how portfolio companies' environmental, social and corporate governance (ESG) policies affect their financial returns (Forum for Sustainable and Responsible Investment, 2012).

Businesses are increasingly being viewed as a major cause of social, environmental, and economic problem as they continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influence that determine their long-term success (Porter and Kramer, 2011). According to Waddock (2008), in the absence of a global governance structure to ensure that corporations are accountable, responsible, transparent and ecologically sustainable, a largely voluntary corporate responsibility infrastructure has emerged that is reshaping companies' responses to these issues and fostering wholly new practices and behaviours. Waddock further notes that this emerging corporate responsibility infrastructure attempts to effect change by using mechanisms such as peer pressure, visibility, rankings, activism and, increasingly, mandate to pressure companies to improve their effects on people, the planet, and societies.

While noting that the nature and role of the investment industry is becoming increasingly important, Giamporcaro and Pretorius (2012:1), have argued that in light of the meltdown of the

¹The United Nations-supported PRI is the largest investor initiative focused on mainstreaming the integration of sustainability issues within investment decision-making.

global financial system after 2007 and the growing recognition of the economic, developmental, and environmental challenges facing individual countries and the international economy alike, the issue is no longer only that economies grow but also *how* they grow. No surprise, then, that the topic of Responsible Investing has been gaining ground as investors seek to incorporate concepts like sustainability and responsible corporate behaviour into their assessments of a company's long-term value (Al Gore, 2007). Responsible investment can be defined as a generic term covering any type of investment process that combines investors' financial objectives with their concerns for environmental, social and governance (ESG) issues (Giamporcaro and Pretorius, 2012:3). Essentially, Scholtens (2014) notes that in responsible investment, investors try to account for environmental, social, governance (ESG) and ethical issues in the investment process; encompassing different stakeholder interests, ranging from economic (such as institutional investors, banks, venture capitalists), organizational (such as labour unions), and societal (such as international organisations, governments, non-governmental organisations, academics).

Bauer et al. (2005) have noted that Responsible Investing as a financial behaviour arose from the mid-20th Century political climate of social awareness for the environment, civil rights protection, distrust towards nuclear energy, and other concerns. At the beginning of the 21st Century, this attitude has led to a strengthening of ethical management in some mutual funds, which invest in companies with powerful environmental policies, honest practices and social guidelines inspired by moral institutions (Galema et al, 2008). Indeed companies today have to look beyond the traditional business objective of returns on investment and embrace sustainable practices in marketing, finance, operational excellence and human resources development. Corporate strategy developers, therefore, have to be cognizant of a number of fundamental variables of business sustainability such as effective corporate governance, legal compliance, environmental management, corporate philanthropy, human and labour rights, health issues, security and community development. According to Escobar and Vredenburg (2011), sustainable development-oriented corporations are capable of not only being responsive to environmental and social pressures; but also of remaining profitable and succeeding in the competitive market place.

Over time, several sustainability indices have been developed and are currently being implemented in various jurisdictions. The sustainability indices linked to financial markets that have been developed around the world aim at providing investors with further insight into corporate sustainability performance (Searcy and Elkhawas, 2012). Responsible Investing) Indices may serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and

provide an effective engagement platform for companies who want to adopt sustainable best practices (Hoon et al, 2013). Moreover, they translate sustainability issues into quantifiable measures with the ultimate aim of helping address the key sustainability concerns (Azapagic, 2004).

Some of these Sustainability Indexes include the Dow Jones Sustainability Index, the FTSE4Good, the Domini Social 400 Index, the JSE's Socially Responsible Investment (SRI) Index in South Africa and the Bovespa Corporate Sustainability Index in Brazil. The Dow Jones Sustainability World Index was launched in 1999 as the first global sustainability benchmark, which together with its respective subsets tracks the performance of the top 10% of the 2,500 largest companies in the Dow Jones Global Total Stock Market Index that lead the field in terms of sustainability (Hoon et al, 2013). In 2001, the FTSE4Good Sustainability Index was jointly set up by the Financial Times and the London Stock Exchange (Bakshi, 2006). The JSE's Socially Responsible Investment (SRI) Index launched in May 2004 by the Johannesburg Stock Exchange (JSE) in South Africa, was the first of its kind in an emerging market, and the first to be launched by an exchange. This was followed closely by Brazil who launched the Bovespa Corporate Sustainability Index in December 2005 (Searcy and Elkhawas, 2012).

According to Bayón et al (2003), Responsible Investing remains largely a developed country phenomenon having yet to make significant inroads into emerging markets where, potentially, it could guide and greatly boost the flow of private capital to sustainable development. As an emerging market, Kenya has become more competitive as evidenced by the country's improved ranking in the World Economic Forum's most recent Global Competitiveness Index (GCI), from 106 out of 144 in 2012/13 to a rank of 96 in 2013/14; mainly on the back of greater confidence in institutions and innovative capacity, with high company spending on research and development and well developed financial markets (Odero and Reeves, 2014).

Arising from this state of affairs, this study was aimed at linking the sophistication of the financial markets in Kenya with the possible creation of a Sustainability Index.

1.2. Problem Statement

Despite the sophistication and rapid growth in developing countries, a host of barriers, both real and imagined, have combined to keep emerging markets off the mainstream Responsible Investing agenda with the result that only an estimated \$2.7 billion, or 0.1% of all Socially Responsible

Investment (SRI) fund assets worldwide, are currently held in emerging-market securities (Bayón et al, 2003). Many emerging economies, present some factors that differ from established markets and that could have a significant impact on Responsible Investing performance. Examples, among others, are the rapid population growth, the potential of companies in developing countries to lead the world in CSR practices, the limited transparency in corporate governance (CG), the great role of the government in influencing the companies' governance structures, the high levels of social and income inequalities, the restrictions of the local capital market, the limited access of the firms to long-term sources of finance and the deficiencies of ethics management (Ortas et al, 2012).

Kenya has over the last few years witnessed tremendous growth in its financial market. According to Apollo Asset Management Company Limited (2014), after a stellar 2012 and 2013 and despite impending re-introduction of capital gains tax, the stock market remained robust registering a positive performance of 8.70% during the third quarter (vs. 4.5% in Q2 and 5.3% in Q1) bringing year to date performance to 19.61%. Indicators are that overall market is trading at a slight premium to its longer term Price/Earnings (PE) multiples despite higher quality earnings growth and potential for increased Mergers & Acquisition (M&A) activity. According to Capital Markets Authority (CMA) data of Q2, 2014 on investor holdings by category, local individuals account for 51.93% compared 33.15% in Q2, 2013. This showing that the interest of local investors in both quoted and unquoted equities is rapidly on the rise and they now have a larger stake in the happenings of the capital market.

Specifically, total Industry assets grew by 9.9 percent in the second half of the year 2013 to stand at KES 697 billion as at December 2013. Compared to the previous year, December 2012, the assets under management have grown by 27 percent from KES 549 Billion. The amount was composed of the KES 565 billion held by the fund managers and insurance issuers, KES 92 billion that is internally administered by National Social Security Fund (NSSF) and an additional KES 39 billion of property investments directly managed by scheme trustees. Similar to other periods, fund managers continued investing heavily in Government Securities and Quoted Securities with the two investments constituting the largest share of the industry assets at 59% of total assets under management.

This can be attributed to a number of factors, one of them being a relatively calm political environment. Kenya has a Constitution that was enacted in August 2010 that sets in place the right institutions and legal infrastructure for social and economic development in Kenya. The country's

strategic intent has been laid out by the Vision 2030 Strategic Plan (A blue print highlighting the focus sectors of growth for Kenya to make it as a middle income country by 2030). However, just like any other emerging market, the missing ingredient is not how fast Kenya's financial market shall grow but how the country plans to nurture its growth sustainably taking into cognizance environmental, social and governance (ESG) considerations in the utilisation of its resources and decision making processes on investments. In other words, Kenya is at its optimum phase of development to inculcate and embed the principles of Responsible Investing.

One of the building blocks to this journey could be introducing a Sustainability Index for listed companies on the Nairobi Securities Exchange (NSE), thus forming a basis for integrating ESG aspects into private sector and other proponents of the society, including the public sector. Slager (2010) notes that such indices have been an important element in the growth and legitimization of the RI market. Stock exchanges and/or regulators can provide a range of incentives to increase the rate of company uptake of sustainability disclosure initiatives (UNCTAD, 2011). It has been argued that long-term sustainability companies deliver more predictable results, which means fewer negative surprises thus increasing the need for active screening of portfolios and for consistent rating and benchmarking tools to assess the environmental, social and economic bottom line (triple bottom line) of companies and the implications for value creation for investors (Knoepfel, 2001; Waddock, 2006). Integrating ESG issues into financial decisions will require constructing a framework whereby social and environmental value or risk can be calculated (Giamporcaro, 2011). Such a framework is currently lacking in Kenya's financial markets with none of the market players being signatories to the United Nations Principles for Responsible Investment (PRI).²

² Kenya is not listed in the Signatories to the Principles for Responsible Investment available at <http://www.unpri.org/signatories/signatories/> accessed 1st December 2014. Within the global arena the United Nations Principles for Responsible Investment (PRI) largely provide soft law governance mechanisms for SRI. The PRI are a set of six guidelines devised by the international investment community to provide a voluntary framework by which investors can incorporate ESG issues into their investment decisions and ownership practices. PRI signatories publically commit to incorporating ESG issues into their investment analysis and decision-making processes, as well as their ownership policies and practices. They also commit to publically reporting on their progress in implementing the PRI annually, with a revised reporting framework. The new reporting framework has both mandatory and voluntary components. The mandatory components are intended to represent the minimum set of (non-commercially sensitive) information indicators that signatories will be required to report and disclose from 2013 to demonstrate their progress, as well as to ensure the accountability of the PRI Initiative (See article (Responsible Investment and Environmental, Social & Governance) by Doug Bryden, Head of Environment & Safety Law, Travers Smit; www.traverssmith.com)

Currently, the Nairobi Securities Exchange (NSE) uses the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices launched in November 2011. According to Mwangi (2011) the FTSE NSE Kenya Index Series is built to FTSE's renowned standards of index design, which emphasize transparency, tradability and strong governance, with index data available across a range of global vendor platforms. The new indices will run concurrently with the NSE 20 Share and NSE All Share Indices (Mwangi, 2011). These performance indicators, though positive, seem to be stronger on economic and governance issues as compared to environmental and social developments. To bolster these initiatives by NSE, it may be useful to use a composite sustainable index, linking many sustainability issues thus reducing the number of decision making criteria that need to be considered. However, a complex problem still consist of the aggregation of different indicators into a properly constructed index, which would enable quick and efficient assessment of sustainability of company as well as benchmarking of companies within a particular sector (Krajnc and Glavic, 2005). Hence, the contribution of this research in identifying obstacles and enablers of developing such an index; in addition to identifying the key ESG issues relevant to Kenya's financial market.

1.3. Purpose and Significance of the Research

This research aimed at linking the growing sophistication of the financial markets in Kenya with the possible creation of a Sustainability Index. In this sense, financial markets are seen to have the power to affect social, economic, and environmental outcomes in which a Sustainability Index could become a good tool in measuring such outcomes. While noting that such an index is not yet integrated in Kenya's financial markets, this research contributed to the identification of obstacles and enablers of developing such an index; in addition to identifying the key ESG issues relevant to Kenya's financial market.

With the increasing sophistication of the financial and investment market globally and in Kenya, the significance of this research is embedded on two benefits. Firstly, the body of knowledge generated will play a vital role in contributing to the growing pool of knowledge on the subject of Responsible Investing not only in Kenya, but also in other developing nations worldwide. Secondly, the information generated through this study provides baseline information that has the potential of initiating further discussion on RI issues within the market and acting as a means of driving other investment segments of the economy towards sustainability as a pillar ingredient of development. Therefore, following the footsteps of similar initiatives on the Dow Jones, FTSE and JSE, a

Sustainability Index for the NSE listed companies has the potential to be a crucial market-based driver for corporate citizenship in Kenya.

1.4. Research Questions and Scope

The scope of this research involved understanding the growing sophistication of the financial markets in Kenya with the possible creation of a Sustainability Index. To cover this scope, the researcher collected data through 20 open-ended questionnaires, of which one was conducted by phone while the rest were sent to the target respondents to fill online. Through purposive sampling, the researcher identified respondents from key financial market players encompassing corporations, the NSE and the CMA³.

The specific research questions included:

- a) What is the state of Responsible Investing in Kenya?
- b) Which ESG issues are most critical to be measured within a Sustainability Index for Kenya?
- c) What would be the enablers and obstacles of implementing a Sustainability Index in Kenya?

1.5. Research Assumption

This was an inductive (theory-building) research which inferred to the concept of Responsible Investing as a means of building long-term sustainability into the business model of corporate entities.

This research assumed that by uncovering the dynamics of the financial markets in Kenya and linking them with the key ESG issues, the right disclosure and measurement model can be designed and implemented to propagate Responsible Investing in Kenya.

The starting point towards social and environmental responsibility begins with the corporate entities that have a number of means of creating shared value with the Kenyan society.

³The Capital Market Authority (CMA) is the government regulator charged with licensing and regulating the capital markets in Kenya. It also approves public offers and listings of securities traded at the NSE. It is governed by the Capital markets Act and a number of regulations that deal mainly with collective investment schemes, Securities, Licensing requirements, tribunal rules and foreign investors.

2. LITERATURE REVIEW

2.1. Overview

For this study, the researcher reviewed a number of literatures to enable him clarify the conceptual framework and understand the definitions and issues around the main concepts under this study i.e. Responsible Investing and sustainability indices. In addition, literature has been reviewed to contextualize the state of Responsible Investing in Kenya and specifically the role of Nairobi Securities Exchange (NSE). Nevertheless, due to lack of specific literature on Responsible Investing in Kenya, a lot of literature presented comes from other jurisdictions.

2.2. State of Responsible Investing in Kenya

According to the State of Kenya's Private Sector report 2013⁴ the private sector in Kenya is generally vibrant and in good health. The report further states that Kenya is a promising place to do business with growing markets, good opportunities and a widespread intellectual appreciation amongst Kenyans, including government officials, that the private sector is important and should be developed as the main driver of growth and employment. Nonetheless, the report argues that despite the positive growth in the business climate over the last decade, there are a number of recurrent challenges that prevent the private sector from reaching its full potential: political uncertainty, corruption, infrastructural deficits, and an untapped informal sector. Additionally, the report notes that the private sector performance is volatile and structurally exposed to shocks – tourism to demand shocks, agriculture to supply shocks, and the whole economy to import inflation, especially from fuel imports.

In Kenya, the Private Sector Corporate Governance Trust (PSCGT) is an independent, not-for profit public trust established in 1999 by the private sector in partnership with other interested stakeholders in Kenya to address the concerns of corporate governance.⁵ The Trust is affiliated with the Commonwealth Association for Corporate Governance and acts as the Interim Secretariat to the Pan African Consultative Forum for Corporate Governance. The Trust works to help build appropriate institutions and national capacity to support the implementation, compliance and enforcement of good corporate governance practices and evaluation mechanisms in Kenya.⁶ According to guidelines by PSCGT, a corporation does not fulfil its social responsibility by short-

⁴ This report is commissioned by the Government of Kenya and the African Development Bank

⁵ See Launching Corporate Governance in Africa with an Emphasis on Kenya; www.cipe.org

⁶ ibid

changing beneficiaries or customers, exploiting its labour, polluting the environment, failing to conserve resources, neglecting the needs of the local community, evading taxation or engaging in other anti-social practices.⁷

Currently, Kenya's corporate firms businesses are faced with major challenges that include an uncertain economy, political changes and a globalized market (Nafukho, 2008). Historically, some of Kenya's public sectors organisations were formed for political reasons, such as creating employment and integrating the nation (Van Den Bor & Shute, 1991). For example, a number of Kenya's public corporate firms like Public universities were established not for the advancement of national intellect but for national pride and domestic politics (Oketch, 2004). Moreover, a number of Kenya's public sector organisations are barely surviving and this is why the IMF/World bank had to intervene in their management (Reed, 2002). However, survival is not enough for these organisations' considering the rapid technological advances that are taking place all over the world. These corporate organisations must think in terms of excellence if they are to adapt effectively to the changing environment (Gachunga, 2009).

Under these dynamics, the fundamental role of Responsible Investing comes into focus. There is little doubt that corporate environmental, social and governance (ESG) is now a global concept and a prominent feature of local and international business, with its practice localized and differing across countries including Kenya. Despite the growing body of research focusing on ESG in developing countries, there is dearth research on institutionalization in African countries with Kenya being no exception. Significantly, firm-related drivers such as public relations and performance, as well as global institutional pressures explain the focus and form of ESG in Kenya.

Nevertheless, consideration of ESG factors in the context of investing is not a new phenomenon. Many analysts and investors already consider ESG-related issues in their analysis when they include an assessment of regulations, litigation, political risks, and the like (CFA Institute Centre for Financial Market Integrity, 2008). In Kenya, it is evident that the language of Corporate Social Responsibility (and its variants) has become institutionalized as more and more companies respond to these normative calls for more socially responsible behaviour; however, this does not seem to arise from local business school curricula and educational venues in which corporate managers participate as suggested by Campbell (2007). Kenya does not seem to have well developed CSR institutions (or a CSR sector such as those found in developing countries like UK) to promote and

⁷See Principles for Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance; www.ecgi.org

monitor responsibility in the Kenyan business environment (Kivuitu and Fox, 2005; Mwaura, 2007; Opondo, 2009). Corporate social governance guidelines introduced by the Capital Markets Authority also remain unenforceable (Gathii, 2008; Barako et al., 2006).

2.3. Stock and Securities Exchange Market in Kenya

In Kenya, the recognized stock and securities exchanges market is the Nairobi Securities Exchange (NSE). The Nairobi Securities Exchange comprises approximately 60 listed companies with a daily trading volume of over USD 5 million and a total market capitalization of approximately USD 15 billion. The capital markets in Kenya has over the years experienced growth in terms of turnover, volumes of trades, market capitalization, products, issuers, investors as well market intermediaries. This is largely attributable to the increase in economic growth which has turned around various sectors of the economy, occasioning positive change in the depth and diversity of the capital markets. This has precipitated new developments which include the introduction of the automated trading system and full implementation of the central depository and settlement system which have greatly altered the trading and settlement landscape of this market.

Some of these developments are elucidated here. Firstly, delivery and settlement is done via an electronic Central Depository System (CDS) which was installed in 2005. Secondly, in 2006 an Automated Trading System (ATS) was introduced in NSE. The ATS ensures that orders are matched automatically and are executed on a first come/first serve basis. This system has now been linked to the Central Bank of Kenya and the CDS thereby allowing electronic trading of Government bonds. Last but not least, the composition of market participants shows a shift from a market dominated by foreign investors in the initiation stage to increased participation of local investors in the formalization stage (especially in the post-independence period) and re-entry of foreign investors, though at limited level, and mass education on stock market operations and assets in the revitalization stage (Ngugi, 2003). Table 1 gives a summary of the historical developments in Kenya's stock and securities market.

The result of these developments is more efficiency, effectiveness, and transparency. For example, advancement in technology in particular is making it possible to set up market facilities, in the form of trading systems, at relatively low cost. This is making it easier for competitors to exploit efficiencies in the trading arrangements and meet investor demand for trading functionality that are more tailored to their specific needs leading to increased overall activity. This increase in the level of activity in the stock market has resulted in an increase in the number of participants.

Unfortunately this has resulted in lowering the general level of sophistication for both for the investors and for markets players. At the same time the traditional order, on which regulation was initially based, is slowly changing leading to greater investor protection risks. It is also easier to pick out any form of market malpractice in the current transparent environment.

Despite the efforts made to promote growth of the capital market and the financial sector in general, the contribution of the sector to economic development was viewed as unsatisfactory as the economy hanged on the balance with dwindling inflow of foreign savings (Ngugi, 2003). As such, a statutory regulatory framework was established as part of the ongoing capital market reforms in an effort to strengthen the regulatory infrastructure. Market regulation is usually geared towards protecting the integrity of the market place, member firms and the customer, with more emphasis on protection of investors, ensuring fairness, market integrity and minimization of systemic risk. The Capital Market Authority (CMA) is the government regulator charged with licensing and regulating the capital markets in Kenya. It also approves public offers and listings of securities traded at the NSE. It is governed by the Capital Markets Act CAP 485A and a number of regulations that deal mainly with collective investment schemes, securities, licensing requirements, tribunal rules and foreign investors. Therefore, member firms of the Nairobi Securities Exchange are licensed to buy and sell securities listed on the Nairobi Securities Exchange after fulfilling general licensing requirements as required by the Capital Markets Authority.

Table 1: Summary of Historical Timelines of NSE

YEAR	EVENT
1954	<ul style="list-style-type: none"> ▪ Nairobi Stock Exchange was then constituted as a voluntary association of stockbrokers registered under the Societies Act. Since Africans and Asians were not permitted to trade in securities, until after the attainment of independence in 1963, the business of dealing in shares was confined to the resident European community.
1988	<ul style="list-style-type: none"> ▪ The first privatization through the NSE, of the successful sale of a 20% government stake in Kenya Commercial Bank. The sale left the Government of Kenya and affiliated institutions retaining 80% ownership of the bank.
1994	<ul style="list-style-type: none"> ▪ The NSE 20-Share Index recorded an all-record high of 5030 points. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms. ▪ The NSE also moved to more spacious premises at the Nation Centre in July 1994, setting up a computerized delivery and settlement system (DASS). For the first time since the formation of the NSE, the number of stockbrokers increased with the licensing of eight new brokers.
1996	<ul style="list-style-type: none"> ▪ In 1996, the largest share issue in the history of NSE, the privatization of Kenya Airways, came to the market. Having sold a 26% stake to KLM, the Government of Kenya proceeded to offer 235,423,896 shares (51% of the fully paid and issued shares of KES 5.00 each) to the public at KES 11.25 per share. ▪ More than 110,000 shareholders acquired a stake in the airline and the Government of Kenya reduced its stake from 74% to 23%. The Kenya Airways Privatization team was awarded the World Bank Award for Excellence for 1996 for being a model success story in the divestiture of state-owned enterprises.
2000	<ul style="list-style-type: none"> ▪ NSE implements a new trading cycle, (T+5). The Central Depository System (CDS) Act and the amended CMA Act (which covers Collective Investment Schemes (CIS)) are passed by Parliament and receive presidential assent, paving the way for the full implementation of the CDS and for the introduction of collective investment schemes in the Kenyan market. ▪ Following the signing of a partnership agreement with the Association of National Numbering Agencies (ANNA) in September 2000, the NSE was appointed as the National Numbering Agency (NNA) for Kenya. In October 2000 NSE becomes a member of the Association of National Numbering Agencies (ANNA), the global securities numbering agency.

2004	<ul style="list-style-type: none"> ▪ The NSE celebrated its Golden Jubilee in 2004, and also had the privilege of hosting the 8th ASEA conference. In this celebration, the first NSE magazine dubbed "The Exchange" and, The Central Depository & Settlement Corporation (CDSC), which manages Central Depository Systems, were both launched.
2006	<ul style="list-style-type: none"> ▪ Live trading on the automated trading systems of the Nairobi Stock Exchange was implemented. The ATS was sourced from Millennium Information Technologies (MIT) of Colombo, Sri Lanka, who is also the suppliers of the Central Depository System (CDS). ▪ A MoU between the Nairobi Stock Exchange and Uganda Securities Exchange was signed in November 2006 on mass cross listing. The MoU allowed listed companies in both exchanges to dualist. This will facilitate growth and development of the regional securities markets.
2007	<ul style="list-style-type: none"> ▪ In July 2007 NSE reviewed the Index and announced the companies that would constitute the NSE Share Index. The review of the NSE 20-share index was aimed at ensuring it is a true barometer of the market. A wide area network (WAN) platform was implemented in 2007; this eradicated the need for brokers to send their staff (dealers) to the trading floor to conduct business.
2008	<ul style="list-style-type: none"> ▪ The NSE All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The Index incorporate firms all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of select counters. In April 2008, NSE launched the NSE Smart Youth Investment Challenge to promote stock market investments among Kenyan youth.
2009	<ul style="list-style-type: none"> ▪ The Nairobi Stock Exchange marked the first day of automated trading in government bonds through the Automated Trading System (ATS) in November 2009. The automated trading in government bonds marked a significant step in the efforts by the NSE and CBK towards creating depth in the capital markets by providing the necessary liquidity. ▪ In December 2009, NSE marked a milestone by uploading all government bonds on the ATS. Also in 2009, NSE launched the Complaints Handling Unit (CHU) SMS System to make it easier for investors and the general public to forward any queries or complaints to NSE
2011	<ul style="list-style-type: none"> ▪ The Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. ▪ In the same year, the equity settlement cycle moved from the previous T+4 settlement cycles to the T+3 settlement cycle. This allowed investors who sell their shares, to get their money three (3) days after the sale of their shares. The buyers of these shares will have

	<p>their CDS accounts credited with the shares, in the same time.</p> <ul style="list-style-type: none"> ▪ In September 2011 the Nairobi Securities Exchange converted from a company limited by guarantee to a company limited by shares and adopted a new Memorandum and Articles of Association reflecting the change. In October 2011, the Broker Back Office commenced operations. The system has the capability to facilitate internet trading which improved the integrity of the Exchange trading systems and facilitates greater access to the securities market. ▪ In November 2011 the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices were launched. The launch of the indices was the result of an extensive market consultation process with local asset owners and fund managers and reflects the growing interest in new domestic investment and diversification opportunities in the East African region.
2012	<ul style="list-style-type: none"> ▪ As of March 2012, the Nairobi Securities Exchange became a member of the Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA). ▪ In March 2012 the delayed index values of the FTSE NSE Kenya 15 Index and the FTSE NSE Kenya 25 Index were made available on the NSE website www.nse.co.ke. The new initiative gives investors the opportunity to access current information and provides a reliable indication of the Kenyan equity market's performance during trading hours.
2013 to date	<ul style="list-style-type: none"> ▪ May 2013, the Nairobi Securities Exchange moved to the Exchange, 55 Westlands Road, Westlands, Nairobi. ▪ NSE's IPO in September 2014, 766% oversubscribed. (Demutualization of NSE)

Source: Author, 2014 (based on NSE website <https://www.nse.co.ke/nse/history-of-organisation.html>)

2.4. Perspectives of Responsible Investing

In response to growing pressure from internal and external stakeholders to consider the environmental and social impacts of their operations, many corporations have implemented a variety of sustainability initiatives (Searcy and Elkhawas, 2012). Corporate sustainability analysts believe the environmental, social and governance (ESG) behaviour of a company can determine whether it is likely to survive and thrive over the long term (Brill, 2009). According to Brill (2009), proponents of this approach say they can uncover better-managed companies by focusing on features such as good environmental track records, diverse managements or boards, transparent financial reporting and prudent lending practices, as well as by filtering out companies who are weak in these areas in ways that could come back to bite investors.

Responsible investment, which is also called socially responsible investment or sustainable investment in the academic and practitioner literature, is done via screening investments, engaging with companies, shareholder activism, community investing, and social venture capital funding (Scholtens, 2014). According to Knoepfel (2001) investors are attracted to this investment style because it promises to create long-term shareholder value by embracing opportunities and managing risks deriving from ongoing economic, environmental and social developments. Moreover, it focuses on future challenges and is capable of capturing qualitative non-financial information for criteria such as quality of management, corporate governance structures, reputational risks, human capital management, stakeholder relations, and corporate social responsibility (Knoepfel, 2001).

IFC (2003) have argued that Responsible Investing is essentially the bridge connecting private-sector investors with sustainability and has advanced three most common approaches to responsible investment which include portfolio screening, shareholder advocacy / engagement and community investment. Portfolio screening is the process of using social or environmental criteria to include or exclude securities from an investment portfolio. Common screens and example measures include: Environment (emissions, recycling programs, toxic materials); Human Rights (minority and gender treatment); Labour Rights (working conditions, pay and benefits); Sin Stocks (alcohol, tobacco, pornography, gaming); Community (local development, charitable activities). Shareholder advocacy / engagement refer to the use of a shareholder's voice and voting rights to influence corporate behaviour. Specific actions can include dialogue with corporations on social issues, filing resolutions at corporations' annual general meetings and joining or leading initiatives to encourage better corporate behaviour. Community Investment on the other hand includes the use of financing to support economically disadvantaged people or environmental businesses underserved by traditional financial institutions and often mean investment in microenterprise institutions or businesses serving poor communities.

Responsible investment strategies have gained popularity in the recent past due to a number of realities in the business realm. In light of the meltdown of the global financial system after 2007 and the growing recognition of the economic, developmental, and environmental challenges facing individual countries and the international economy alike, the nature and role of the investment industry is becoming increasingly important (Giamporcaro and Pretorius, 2012). Therefore as noted by Richardson (2008), Responsible Investing has become increasingly recognized as primarily a mean to further sustainable development. Richardson further advances that

implementation of the concept of sustainable development requires integration of ecological considerations into all aspects of economic decision making including financial markets.

Today, the global RI industry is comprised of more than 760 retail funds and many institutional investors using some form of social or environmental analysis in their investment decision-making. Bakshi (2007) has noted that the evolution of RI and its current discourse is premised on markets as a positive and creative means for allocation of resources. Moreover, it is also founded on the view that the market mechanism is not a law of physics but instead a human-construct that can be molded and tweaked to work in different ways. Thus RI is of interest even to those who have a sharp critique of the prevailing form of market driven globalization but are keen to deploy varied means to contain its socially and environmentally destructive trends (Bakshi, 2007).

Sustainability reporting is a key instrument for further promoting responsible decision making and behaviour, and for driving corporate transparency. Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy – one that combines long term profitability with social justice and environmental protection (KPMG et al, 2013). Today, less than 10% of the more than 45,000 publicly traded companies that are required to disclose their annual accounts report on their sustainability performance (KPMG et al, 2013).

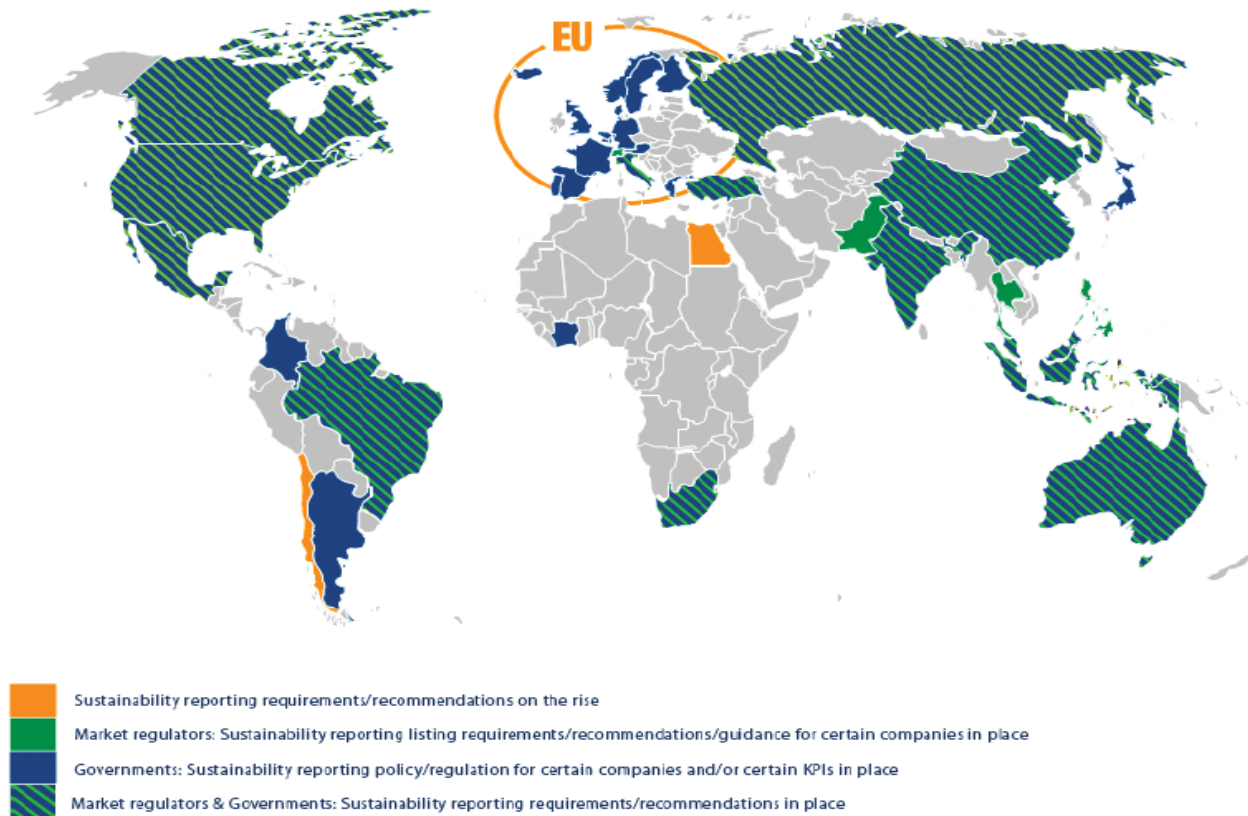
Nevertheless, in response to growing demands from investors and other stakeholders, an increasing number of stock exchanges and regulators around the world are creating initiatives that encourage sustainability reporting. For example, since 2012, the listing agreement of the Indian Stock Exchange mandates that business responsibility reports addressing environmental, social and corporate governance issues must be disclosed as a part of annual reports for the top 100 listed entities by market capitalization. In many European countries it is now mandatory for pension funds to disclose the extent to which social, environmental and ethical issues were taken into consideration in the investment process (Bakshi, 2006). However, in Africa sustainability reporting is yet to be adopted by many countries – see figure 1.

Sustainability reporting initiatives can be categorized into two main types: mandatory and voluntary. Mandatory approaches may be based on a comply or explain or a prescriptive framework, while voluntary approaches leave reporting to the company's discretion but have the potential to be effective where certain drivers exist. The two approaches can be used simultaneously with mandatory reporting reserved for only some issues or some companies. They can also be used sequentially, with voluntary reporting used for an initial period to allow

companies to develop capacity, eventually to be supplanted by mandatory reporting to ensure a harmonized approach among all companies. Companies are more likely to report specific information if such disclosure is made mandatory by a stock exchange or regulator (UNCTAD, 2011a; Loannou and Serafeim, 2012).

At the global level, sustainability reporting is championed by the Sustainable Stock Exchanges (SSE) Initiative which is aimed at exploring how exchanges can work together with investors, regulators, and companies to enhance corporate transparency, and ultimately performance, on ESG issues and encourage responsible long-term approaches to investment. The SSE Initiative is a UN initiative, working as a partnership between the UN, UN-backed organisations, stock exchanges, investors, companies, regulators and governments. The SSE is co-organized by the United Nations Conference on Trade and Development (UNCTAD), the United Nations Global Compact Office, the United Nations-backed Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP-FI). In 2013, the SSE is working with UNCTAD's Intergovernmental Working Group on International Standards of Accounting and Reporting (ISAR), to produce best practice guidance for policy makers and stock exchanges on sustainability reporting initiatives.

Figure 1: Worldwide Trends



Source: (KPMG, UNEP, GRI and Unit for Corporate Governance in Africa, 2013)

2.5. Responsible Investing Indexes Framework

Slager (2010) argues that with the growth of RI in recent years a large number of Responsible Investing indices have been developed by social rating agencies and financial index providers. According to Searcy and Elkhawas (2012) a number of terms can be used to refer to these indices. They argue that as illustrative examples, the first word may appear as “sustainability”, “socially responsible”, “social”, “environmental”, or “ethical” while the second may utilise “indices”, “indicators”, “ratings”, or “rankings”. For the purposes of this study, the term “sustainability indices” is preferred and defined as “measures that serve to systematically, accurately, consistently, and transparently assess the environmental, social, and economic performance of corporations” (Searcy and Elkhawas, 2012).

Despite still being small, the RI market is a fast growing organizational subset of the financial market, which has relied heavily on quantitative tools to measure corporate social performance (Déjean, Gond, & Leca, 2004). By mimicking the quantitative measurement tools available in

mainstream financial markets, social rating agencies are able to promote RI more effectively to traditional investors (Déjean et al., 2004). RI indices have been an important element in the growth and legitimization of the RI market (Déjean et al., 2004). Commensuration, or the transformation of different qualities into a common metric, simplifies information and renders what is being measured relative and comparable (Espeland & Stevens, 1998).

RI indices can serve as tools for organizational learning when used as benchmarks for CR performance. Slager (2010), note that RI indices can provide leverage that can be used in their day-to-day practices. Indices can be used to educate colleagues about CR and the importance of CR practices to external stakeholders such as investors. For instance, the indices can be used as an explanation to colleagues as to why they have to collect and monitor vast amounts of information, something which might take up valuable resources. According to Arnold (2004), indices equip investors with tools designed to reflect the state of the market, and can be used to compare the performance of a portfolio of specific companies against the overall market performance at different times. On the other hand, Power (1997), argues that the influence of the indices could not only require additional resources to conform to new criteria but could also lead to the creation over time of new mentalities, new incentives and perceptions of significance.

There are a number of Responsible Investing indexes that have been launched by various entities. Some of these Sustainability Indexes include the Dow Jones Sustainability Index, the FTSE4Good, the Domini Social 400 Index, Citizens Index, Calvert Social Index, the Bovespa Corporate Sustainability Index in Brazil and the JSE's Socially Responsible Investment (SRI) Index in South Africa. These indexes differ in the emphasis they place on social characteristics. For example Statman (2005) argues that the Domini 400 Social Index is the strongest among all indexes on the environment while the Calvert Index is strongest on corporate governance. Moreover, as noted by Slager (2010), not all RI indices are relative measures: indices like the FTSE4Good index series are absolute benchmarks, which include all rated companies that have passed the threshold set by the index criteria. This means no hierarchy is created among listed companies, and some of the competitive elements of external evaluation are therefore lost. In contrast, indices such as the Dow Jones Sustainability Index are relative benchmarks, and include only a fixed amount of top rated companies.

These indexes are summarized in table 3. Nevertheless, the JSE's Socially Responsible Investment (SRI) Index in South Africa has been discussed in detail because it provides a good case study for

reference as it was the first to be launched in Africa. The JSE's Socially Responsible Investment (SRI) Index was launched in May 2004 by the Johannesburg Stock Exchange (JSE) in South Africa. The SRI Index was a pioneering initiative – the first of its kind in an emerging market, and the first to be launched by an exchange, and has been a driver for increased attention to responsible investment into emerging markets like South Africa (www.jse.co.za). Although responsible business activity was already bedded down for many South Africa's companies, owing to the complex nature of the country's history, and the fact that the country had been a leader internationally in establishing a progressive corporate governance code (the King Code), companies still needed guidance on what their practices needed to encompass and investors were looking for a way to invest in companies that had good practices in relation to the triple bottom line (www.jse.co.za).

The SRI Index offers a sustainability benchmark to aspire to, recognizing listed companies that incorporate sustainability principles into their everyday business practices and serves as a tool for investors to assess companies on a broader base. Based on these motives, the index has three broad objectives: (a) to highlight companies from the JSE All Share Index with good sustainability practices; (b) to provide the basis for financial SRI products; and (c) to satisfy the need to find an objective and accepted method of measuring the sustainability performance of listed companies.

In order to participate on the Index, firms are required to meet certain criteria, which are continuously being updated and improved (Gladysek and Chipeta, 2012). Sonnenberg and Hamann (2006) have noted that in designing the criteria and methodology for the index, the JSE needed to adapt international experience to the South African context, allowing for a product that would be practical for both local and multinational operators. One example of this adaptation is that the JSE SRI Index avoids automatic exclusions and negative weighting for high-impact sectors in its assessment process, motivated by the importance of the extractive sector in the South African economy, and indeed in Africa and the desire to encourage widespread participation in the Index, so as to enhance its impact (Sonnenberg and Hamann, 2006). The Index is centred on a set of about 70 criteria or indicators (originally more than 90), grouped in terms of the four overarching categories of corporate governance, society, environment and economy as illustrated in Table 2.

Scoring against each criterion is on a scale between 0 and 3, based on specific guidelines for each criterion. The generic requirements for each score are as follows: (a) Score 0: nothing in place and only sporadic or ad hoc activity takes place, if any; (b) Score 1: objectives/systems are

in place but do not meet the level set by the criteria; or evidence exists that regular/systematic efforts are being made to set objectives/ implement a system; (c) Score 2: objectives/systems are in place and are reported on, fully meeting the level set by the criteria; (d) Score 3: objectives/systems are in place exceeding the level set by the criteria.

Table 2: Selected core criteria for the JSE SRI Index's first round (2004)

CATEGORY	PERFORMANCE AREA	SAMPLE CORE INDICATOR
Corporate governance	Policy	<ul style="list-style-type: none"> ▪ Designated executive is responsible for risks and opportunities presented by each of the triple bottom line practices ▪ Policy commits to achievement and maintenance of King II requirements
	Management and performance	<ul style="list-style-type: none"> ▪ Processes and structures in place for internal auditing of business operations ▪ Internal reporting processes and structures and management review in place ▪ Performance in line with 60% or more of (selected) elements of King II
	Reporting and consultation	<ul style="list-style-type: none"> ▪ Regular, clear and comprehensive disclosure made whenever disclosures made ▪ Reporting by the company is clear, transparent, complete and simple
Environment	Policy	<ul style="list-style-type: none"> ▪ Policy identifies direct and indirect current and future impacts the company has on the environment ▪ Designated executive responsible for risks and opportunities presented by company's environmental impact ▪ Policy commits to monitoring and performance review ▪ Policy commits to continuous improvement in environmental impact
	Management and performance	<ul style="list-style-type: none"> ▪ Development of awareness of significant environmental impacts ▪ Documented targets, initiatives, programmes or management systems to address and monitor most

		significant impacts across all operations
	Reporting and consultation	<ul style="list-style-type: none"> ▪ Quantitative, comparable and non-selective data on environmental issues given publicly where relevant ▪ Regular, clear and comprehensive disclosure made whenever disclosure made ▪ Performance against targets fairly reported on
Economy	Policy	<ul style="list-style-type: none"> ▪ Policy commits to use of reasonable targets, key performance indicators/scorecards, appropriate to the company's size and business ▪ Evidence of policies relating to asset protection (including intellectual capital and IT), research and product development, etc. appropriate to the company's size and business ▪ Policy identifies the economic impact the company's activities may have on entities within the company's sphere of influence or where it operates
	Management and performance	<ul style="list-style-type: none"> ▪ Short and long term risks, challenges and opportunities are managed ▪ Internal reporting processes and structures and management review in place ▪ Regular strategic planning and organizational development exercises undertaken ▪ Achievement of targets, key performance indicators or scorecard measured
	Reporting and consultation	<ul style="list-style-type: none"> ▪ Quantitative, comparable and non-selective data on economic issues given publicly where relevant ▪ Performance against targets fairly reported on
Society	Policy	<ul style="list-style-type: none"> ▪ Policies and strategies in place relating to employee occupational health and safety ▪ Policies and strategies in place to identify and manage the impact of HIV/AIDS on the company's activities ▪ Policies and strategies in place relating to employee motivation , including a commitment to develop reasonable targets (employment equity, diversity and skills development)

		<ul style="list-style-type: none"> ▪ Policies and strategies in place relating to external empowerment, including a commitment to develop reasonable targets (equal opportunities, black economic empowerment and affirmative procurement) ▪ Code of ethics or business principles in place
	Management and performance	<ul style="list-style-type: none"> ▪ Documented initiatives or programmes to address employee occupational health and safety appropriate to the company's size and business ▪ Documented initiatives or programmes to address the impact of HIV/AIDS on the company's activities ▪ Documented targets, initiatives or programmes to address employee motivation ▪ Documented targets, initiatives or programmes to address external empowerment
	Reporting and consultation	<ul style="list-style-type: none"> ▪ Quantitative, comparable and non-selective data given publicly where relevant ▪ Performance against targets fairly reported on ▪ Stakeholder dialogue undertaken whenever relevant

Source: Sonnenberg and Hamann (2006)

Table 3: Responsible Investing Indexes

	RI INDEX	YEAR OF LAUNCHING	LAUNCHING ENTITY	CHARACTERISTICS
1.	Dow Jones Sustainability Index	1999	Dow Jones in conjunction with SAM Group	<ul style="list-style-type: none"> - the first global sustainability benchmarks aimed at tracking the stock performance of the world's leading companies in terms of economic, environmental and social criteria. - indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices - comprise global and regional benchmarks as well as subsets that allow investors to exclude certain industries or create customized indices - Sub-indices under DJSI Diversified include; World Developed Diversified Index, Emerging Markets Diversified Index, Europe Diversified Index, North America Diversified Index, Asia Pacific Diversified, Emerging Markets Plus Diversified Index, World Developed ex Korea Diversified Index - it uses best-in-class selection rules in its construction thus does not exclude all companies in the tobacco, gambling, alcohol and similar industries that are excluded from the other indexes such as Domini Social 400 Index, Citizens Index and Calvert Social Index
2.	FTSE4Good Index Series	2001	FTSE Group	<ul style="list-style-type: none"> - is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. - is designed for use in the creation of index tracking funds, derivatives and as a performance benchmark

				<ul style="list-style-type: none"> - Index governance is overseen by the independent FTSE4Good Advisory Committee -
3.	Domini Social 400 Index	1990	KLD Research & Analytics	<ul style="list-style-type: none"> - A market cap weighted stock index of 400 publicly traded companies that have met certain standards of social and environmental excellence. - Candidates for this index have positive records on issues such as employee and human relations, product safety, environmental safety, and corporate governance. - Companies engaged in the business of alcohol, tobacco, firearms, gambling, nuclear power and military weapons are automatically excluded. - During evaluation, problems in one area do not necessarily lead to the exclusion of a company from the Index. Rather, KLD excludes from the index companies whose records, on balance, are negative.
4.	Calvert Social Index		Calvert Investments	<ul style="list-style-type: none"> - is a free float-adjusted, market capitalization weighted index that measures the performance of large and mid-cap US-based companies. - currently consists of 680 companies, weighted by market capitalization, selected from approximately 1,000 of the largest publicly traded companies in the United States using Calvert's social criteria - These criteria relate to the environment, workplace issues, product safety, community relations, weapons contracting, international operations, and human rights. <p>Calvert excludes companies with interests in gambling, tobacco and military weapons but includes companies with interests in alcohol, firearms, and nuclear power, unless such interests are substantial.</p>

5.	Bovespa Corporate Sustainability Index	2005	BM&FBOVESPA - Brazilian Mercantile & Futures Exchange (BM&F) and the São Paulo Stock Exchange (Bovespa).	- is a tool for comparative analysis of the performance of the companies listed on BM&FBOVESPA from the standpoint of corporate sustainability, based on economic efficiency, environmental equilibrium, social justice and corporate governance.
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2.6. Obstacles and Challenges to Responsible Investing

Most obstacles to Responsible Investing emanates from the existing legal framework within a particular market system. According to Richardson (2008), these obstacles focus on governing fiduciary duties, the decision-making procedures within financiers, and the international framework for financial markets regulation. Similarly, a widely ignored barrier to SRI, namely undemocratic methods of decision-making within financial institutions is also another key obstacle. Owing to their governing legal constitutions, few financial institutions provide the space for fund members to participate in investment policy, let alone to debate ethical choices.

In a study which explored the factors that impact the growth and development of the Responsible Investment (RI) sector in South Africa, the following challenges were identified (Herringer, Firer and Viviers, 2009):

- a) Risk adjusted performance: SRI investments require broader investment return objectives. Investors are looking for social return as well as financial return; however the addition of social return should not compromise that of financial return. This study found that there was some confusion amongst interviewees as to exact performance figures of SRI investments relative to other asset classes. Moreover, the description of 'social return' was vague and incongruent across interviewees. There was however consensus that for the most part, the benefits were immeasurable. On this regard, the study concluded that with social returns included in the overall risk adjusted performance offering, further challenges confront the sector as benefits are offered to investors that are largely unquantifiable.
- b) Human capital: The study further found that there was a shortage of skilled resources available in South Africa especially skills in the ESG analysis arena. A common concern was that the people required needed to have vision and commitment towards SRI and have the desire and know how to seamlessly balance both financial and social return in all investment decisions.
- c) The SRI investment universe: It was found that different companies and organisations use different filters and techniques when compiling their investable universe. Thus every decision that the SRI analyst made needed an additional SRI lens with which to view the company. This led to a greater cost being incurred in analysis, for which they were expected to provide an equal or greater risk adjusted return. In addition, the investment universe had to be reviewed every year in order to ensure that companies still complied with the initial criteria making them eligible for a respective SRI fund.

- d) Availability of SRI information and research: The availability of SRI information was a challenge but one that was felt to be becoming easier as a result of more pressure being placed on companies to disclose ESG risk management through sustainability reports accompanying annual financial statements and the FTSE/JSE SRI Index which has become a catalyst in encouraging companies to comply with ESG reporting requirements.
- e) Trustee fiduciary duties: It was noted that South African trustees adopted a more cautious approach to SRI or avoided SRI funds completely, since some funds suffered significant losses in the late 1990s. However, the negative perceptions among trustees is no longer warranted as a growing body of research indicated that SRI funds tend to perform on par with conventional (non-SRI) funds and even outperform these funds over the long-term.

The above challenges are in consonance with arguments by other commentators. It has been suggested that as a relatively young market, RI suffers from several “childhood diseases”, the causes of which are not yet fully understood (Pilaj, 2013). In particular the following facts have been observed: (a) Despite impressive growth rates, compared to the total volume of the investment universe RI represents only a small fraction of about 1%; (b) More than 90% of RI is held by institutional investors, such as public pension funds, corporate pension funds and insurance companies (Pilaj, 2013). Therefore, Pilaj, concludes that lack of information on RI, aspects of consumer behaviour, especially the so called *status quo bias*, potential disadvantages with regard to transaction costs and / or performance, lack of transparency of RI criteria and problems of image and reputation as the reasons behind the relatively low proportion of SRI and the entry barriers to retail investors.

2.7. Conceptual Framework

Embedding Responsible Investing in Kenya will entail understanding the *System of actors*, so as to look at opportunities of *Creating Shared Value* whilst setting this up in the right disclosure model so as to ensure that the Country can measure its progress in sustainability through *enhancing Responsible Corporate Behaviour*.

The shifts in our financial markets are heightening the urgency with which attributes of Responsible Investing need to be entrenched in Kenya. Assets under fund management have grown from KES 98 billion (June 2004) to KES 565 billion (June 2013), similarly funds held by the National Social Security Fund which is primarily the public pension depository in Kenya were KES 136 billion as at June 2013. The funds available for Investment purposes have grown by 370% in the last five years. Retirement benefits Industry Investments in quoted equities rose by 20% from KES 148 billion in June 2013 to KES 177 billion in December 2013 (RBA Performance Report, 2013). Marked by a stable market, investment in this asset class continued to register positive returns with all fund managers increasing the investments in this asset class. Investments in this asset class constituted 25% of all assets under management (RBA Performance Report, 2013).

The Central bank (CBK) is one of the major institutional players in the market and has been active in the open market in 2014 in order to provide a floor in the rates market and in turn keep interest rates down. Through the Central bank the government plans to be relatively prudent in its borrowing programme and on the back of a hugely successful Euro-link Infrastructure bond (IFB) in which they attempted to raise KES 15 billion and received KES 39 billion in bids from the International Investment community. At the recent Market Leaders Forum (MLF) the CBK suggested the Fiscal Year 2014/15 domestic borrowing target will be lower at KES 102 billion instead of KES 191 billion. This only means that the shrinking government securities asset class will lead to investments being directed towards quoted equities, immovable property and guaranteed funds which currently form 25%, 17% and 10% respectively of the total industry investment portfolio.

The growing importance of CMA as a regulator cannot be underestimated; the newly released Corporate Governance Codes are an attempt towards starting to tackle ESG issues within the capital market. The performance of the capital markets are an important barometer for measuring the economic health of a country. To date, notwithstanding the capital markets' active role in mobilizing funds and facilitating economic development in the past, challenges to optimal utilisation remain, including: a narrow retail investor base; inadequately diversified financial

products; uncompetitive transaction costs; low investor awareness; and dominance by financial institutions as compared to the real sector companies at the securities exchange. These challenges must be addressed given greater demand will be placed on our capital markets in the coming years to achieve our national aspirations (CMA Master Plan, 2014).

The Financial Services Sector (FSS) is critical to achieving the Vision 2030 target of 10 per cent annual average economic growth and requires that the sector stimulates significant increase in investments and savings through mobilizing both domestic and international resources. The aspirations articulated for the FSS in the Vision is to “Create a vibrant and globally competitive financial sector that will promote a high level of savings to finance Kenya’s overall investment needs”. The second Vision 2030 Medium Term Plan 2013 – 2017 (MTP II) identifies the Capital Markets as key drivers of the FSS and lays out ambitious targets along the dimensions of Access, Stability, and Efficiency. In terms of Access, the plan targets to increase overall access to formal financial services to 90 percent by 2017 up from 67 percent in 2013. In terms of Stability the target is to significantly reduce the volatility in the stock exchange indices whereas under Efficiency the plan targets to boost Liquidity Ratios and the ratio of Bonds Turnover to Bond Market Capitalisation (CMA Master Plan, 2014). With these ambitions in place, comes the need to review *emerging trends in ESG issues* across the sector and the starting point of that being with the Capital Markets.

An increasing number of stock exchanges and regulators have introduced or are in the process of developing initiatives that encourage sustainability reporting in order to assist companies meet the evolving information needs of investors; navigate increasingly complex disclosure requirements and expectations; manage sustainability performance; understand and address social and environmental risks and opportunities (UNCTAD, 2013). This calls for the need to *redefine corporate boundaries* for entities in Kenya. Companies must take the lead in bringing business and Society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of the new model are emerging. Yet we still lack an overall framework for guiding these efforts and most companies remain stuck in a ‘social responsibility’ mind-set in which societal issues are at the periphery, not the core (Porter and Cramer, 2011). The solution lies in the principle of *shared value*, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. *Shared value* is not social responsibility, philanthropy, or even

sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the centre (UNCTAD, 2013).

RI indices are a key instrument for promoting responsible decision making and behaviour, and for driving corporate transparency as companies seek to connect with the society around it. The influential role that stock exchanges can play in promoting high-quality sustainability reporting through listing rules and voluntary sustainability indices is unrivalled (UNCTAD, 2013). Introducing a comprehensive sustainability initiative can involve cooperation between different government entities and/or stock exchanges. For example, when the Government of India through the Ministry of Corporate Affairs came out with the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business in July 2011, the Securities and Exchange Board of India made it a requirement that listed companies had to prepare business responsibility reports based on the guidelines. In countries where the stock exchange does not have regulatory powers and cannot set listing rules, the stock exchange can consider the implementation of voluntary initiatives, while regulators can consider both voluntary and mandatory initiatives.

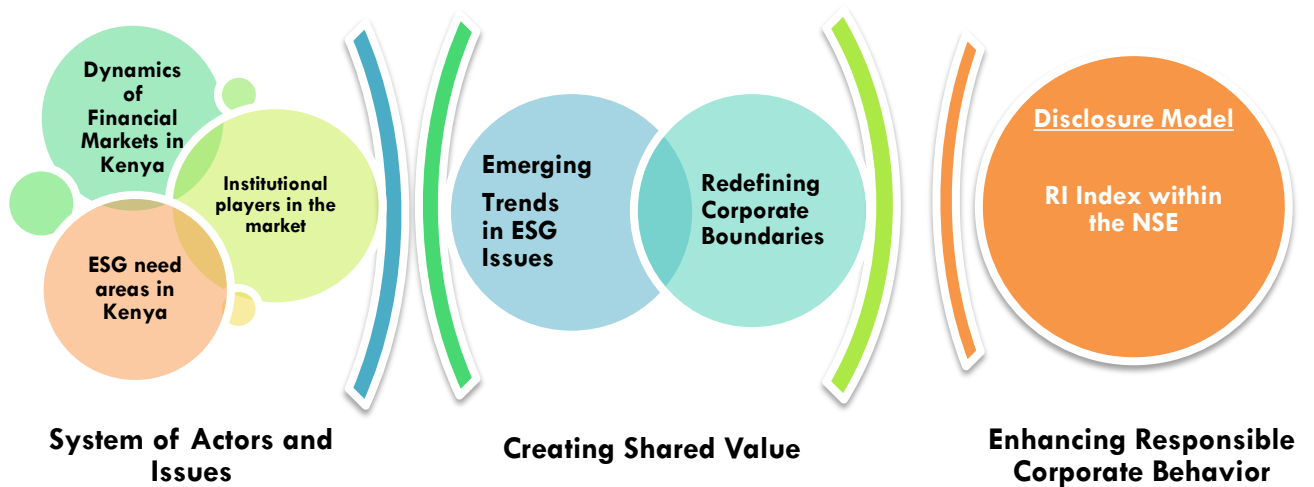
The *Disclosure model* for a Sustainability initiative (*RI Index*) can be categorized into two main types: mandatory and voluntary. Mandatory approaches may be based on a comply or explain or a prescriptive framework, while voluntary approaches leave reporting to the company's discretion but have the potential to be effective where certain drivers exist. The two approaches can be used simultaneously with mandatory reporting reserved for only some issues or some companies. They can also be used sequentially, with voluntary reporting used for an initial period to allow companies to develop capacity, eventually to be supplanted by mandatory reporting to ensure a harmonized approach among all companies.

Internalization of public measurement leads to changes in cognitive structures within the organisations that are being evaluated. Drawing on Foucault's concept of discipline, Espeland and Sauder (2009) argue that law schools were unable to buffer their activities from the disciplinary power exerted by the USN rankings. They further note that the rankings initially produced anxiety and resistance with organizational decision-makers, but over time their allure and importance increased. The effects of this disciplinary power were extensive celebration of good news (defined by a good ranking; bad rankings similarly created extensive analysis and introspection), a redefinition of organizational strategy in line with the evaluation criteria, and the development of administrative routines to support collection of information for evaluation (Sauder &Espeland,

2009). Once organisations start to supply the information needed for evaluation, they can come to internalize the constituent elements of the measurement as performance variables (Power et al., 2009). Public measures can thus come to shape organizational cognition and establish the norm of excellence to which all organisations must conform (Slager, undated).

Equity indices equip investors with tools designed to reflect the state of the market, and can be used to compare the performance of a portfolio of specific companies against the overall market performance at different times (Arnold, 2004).

Figure 2: Conceptual Framework



Source: Authors Construct, 2014

2.8. Conclusion

From literature review, it is clear that the subject of RI is still at its infancy in Kenya with only a few corporate firms especially those in asset management being signatories to the United Nations Principles for Responsible Investment (PRI). Despite this positive move, literature is also still thin on the specific reporting mechanisms used by those implementing the PRI. Moreover, Responsible Investing is also currently being implemented under various components especially corporate social responsibility. However, the explicit incorporation of environmental, social, and governance (ESG) criteria into portfolio selection methodology in the Kenyan financial market is a relatively new trend that has not yet been adequately implemented.

Literature has also indicated that there are numerous obstacles and enablers to Responsible Investing and introduction of a Sustainability Index especially in developing markets. Increasingly, firms pay attention to their social responsibility and financial institutions invest in a responsible manner. More and more firms are being rated not only on the basis of their credit status, but also on the basis of their social performance. They engage in social reporting and sign up to international codes of conduct like the UN's Global Compact or the Principles for Responsible Investment. Taking account of environmental, social and governance factors increasingly is being regarded as business as usual (Scholtens, 2013).

3. RESEARCH METHODOLOGY

3.1. Research Approach and Strategy

This research adopted a qualitative research design which was used to obtain information based on the key research questions of the study. The choice of the qualitative research design was informed by the scope of this study, which by large required in-depth understanding of the key issues under study. Gina (2009) argues that qualitative research is carried out when one wishes to understand meanings, look at, describe and understand experience, ideas, beliefs and values, intangibles such as these. According to Mason (2002), qualitative research exhibits three characteristics: (a) being grounded in an 'interpretivist' position i.e. they are concerned with how the phenomena of interest are interpreted, understood, experienced, produced or constituted; (b) based on research methods which are flexible and sensitive to social context; (c) based on analytic methods which take account of complexity, detail and context.

To carry out this study, the researcher prepared open-ended questionnaires which were distributed electronically to respondents. The respondents were drawn from a sample of 20 NSE listed companies, fund managers, the NSE and the Capital Markets Authority (CMA). At the time of data collection, all the respondents occupied higher cadre managerial positions within the companies and therefore it was assumed that the information given adequately represented the position of the company unless a specific question required otherwise. Nevertheless, there is a possibility that a respondent might have had some bias based on their personal views; therefore for the purpose of this research it was assumed that all respondents were objective in their responses and free from external influences.

3.2. Data Collection, Frequency and Choice of Data

Kombo and Tromp (2006) have argued that collection of information is a vital component of research because it is through the collected information that major research findings are made, recommendations offered and the way forward formulated. Generally for any research study both primary and secondary research is done to facilitate a better understanding of the study. On one hand, primary research helps garner relevant and adequate data of the current state of affairs pertaining to any subject and provides an insight into the exact nature of the problem, while secondary research enables collection of already published information.

This approach involved both secondary and primary research methods. Data collection from secondary sources included review of published academic journals, company reports, policy and statutes. These documents were retrieved mainly from the internet. Firstly, desktop research was done to compare the performance of similar indices in other countries and the impact they have had on the listed companies that are constituent to them. In addition such desktop study also helped in clarifying some of the theoretical concepts used in this research.

To collect primary data, the researcher opted to administer open-ended questionnaires to the target respondents. Open-ended questionnaire administration was preferred by the researcher because open-ended questions allow greater depth of response, are simpler to formulate and understand and may give insights into a respondent’s feelings, background, interests and decisions (Mugenda and Mugenda, 2009).

The open-ended questionnaire was organized into three thematic areas covering the respondents’ characteristics, Responsible Investing and Sustainability Index – see table 4 and appendix 1. The researcher also gave a generic definition of the key concepts under this study (Responsible Investing and Sustainability Index) as a way of giving the respondents some orientation and perspective of the context of the study. The open-ended questionnaire was then uploaded into an online survey platform - *survey monkey*. In addition, the researcher prepared a data base of the target companies and the respondents therein whom he personally called to brief them on the research and also get their consent to participate.

Table 4: Questionnaire Structure

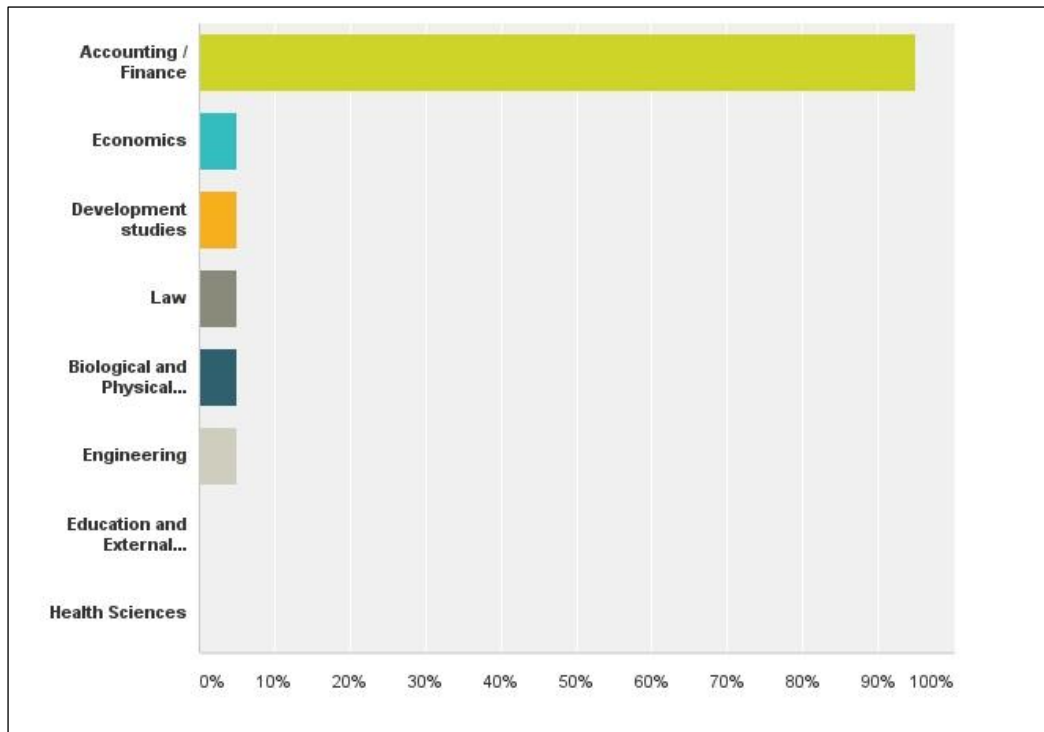
	Section	Description
1.	Section A: Respondent’s Characteristics	This section covered general information about the respondents such as gender, educational background, job designation and the length of time the respondent had worked in the company.
2.	Section B: Responsible Investing	Questions under this section sought to find out opinions and general information about a number of aspects such as market definition of Responsible Investing and the status of Responsible Investing in Kenya encompassing challenges, drivers and obstacles.
3.	Section C: Sustainability Index	Under this section, opinion of the respondents was sought on obstacles and enablers in the possible

3.3. Sampling

Sampling in research usually enables the researcher to select a representative part or portion of a total target population for ease of data collection and analysis. Therefore, to select a sample size for the study, the researcher used purposive sampling approach. According to Richie, Lewis and Elam (2003), criterion-based or purposive sampling approach selects sample units that have particular features or characteristics that enable a researcher to explore and understand certain themes and puzzles. The process of selecting the samples should be objective enough to pass an independent scrutiny test. This approach is supported by Patton (2002) who argues that qualitative research sampling should be purposeful rather than random.

The researcher was nonetheless cognizant of the fact that purposive sampling can be highly prone to researcher bias. The researcher thus ensured that the companies selected were major players in the stock and securities market in Kenya and that the targeted respondents were persons involved in key decision making in their respective companies. Figure 3 below shows that 95% of those interviewed had Finance/Accounting professional background. In addition, 60% of the respondents were in charge of key portfolios within their companies that deal with fund investments. For this study, a sample size of 20 institutions was selected. The respondents were drawn from a sample of 16 NSE listed companies, the NSE and the Capital Markets Authority (CMA).

Figure 3: Professional Background of Respondents



Source: Survey 2014

Out of the target sample of 20 respondents, a total of 18 responded. 14 of these answered all the survey questions, 2 respondents did not respond to the section on ESG issues and 2 of the respondents sent incomplete returns. Table 5 below gives a summary of the respondents where their names and organisations have been kept anonymous. The researcher has therefore attributed verbatim quotes and other information gathered from the survey using numbers referencing to a particular respondent.

Table 5: Respondents' Summary

	Respondent	Organization type	Position
1.	Respondent 1	Listed Company	Finance Officer
2.	Respondent 2	Development Finance Institution	Senior Investment Officer
3.	Respondent 3	Investment Bank	Financial Analyst
4.	Respondent 4	Listed Company	Corporate Affairs Director & Company Secretary
5.	Respondent 5	Fund Manager	Investment Manager
6.	Respondent 6	Fund Manager	Portfolio Manager
7.	Respondent 7	Fund Manager	Equity Analyst
8.	Respondent 9	Development Finance Institution	Environmental and Social Specialist
9.	Respondent 10	Fund Manager	Investment Officer
10.	Respondent 12	Fund Manager	Chief Investment Officer
11.	Respondent 13	Listed Company	General Manager Finance & Operations
12.	Respondent 14	Securities Exchange	Head, Market and Product Development
13.	Respondent 15	Regulator	Assistant Manager, Financial Analysis
14.	Respondent 16	Listed Company	Associate Director
15.	Respondent 17	Stock Broker	Chief Executive Officer

16.	Respondent 18	Regulator	Senior Officer Surveillance
17.	Respondent 19	Listed Company	Chief of Staff
18.	Respondent 14	Regulator	Team Leader, Market Development

Source: Author 2014

3.4. Data Analysis Methods

Being a qualitative research, it followed also that the researcher needed to use appropriate qualitative data analysis methods. Miles and Huberman (1994) argue that qualitative data analysis is the process of examining, categorizing, tabulating, and compiling empirical evidence to address the research questions. Qualitative data analysis is continuous process that begins at the data collection stage (Patton, 2002). According to Yin (2009), the essential outcome of qualitative data analysis is to treat evidence fairly, produce compelling conclusions and rule out alternative interpretations.

Based on content analysis technique, the researcher reviewed the responses and organized them into themes in line with the research questions that the study set to answer. Therefore, responses that sought to answer a particular research question were categorized together in order to enable the researcher to develop conclusions and inferences based on particular respondents. The researcher was nonetheless alive to possible shortcomings of content analysis technique where the researcher is prone to bias. To avoid such a possibility, the researcher in presenting the findings of this study has greatly used direct quotation of the respondents' opinions.

3.5. Research Reliability, Validity and Limitations

In research, reliability is concerned with consistency of measurement over time or stability of measurement over a variety of conditions, while validity is concerned with the meaningfulness of research components.⁸Mugenda (2013) has argued that the quality of quantitative research is established using the concepts of validity and reliability. Nonetheless, while quoting Guba and Lincoln (1983), Mugenda agrees that such concepts of validity and reliability cannot be applied in

⁸ See Ellen A. Drost, Validity and Reliability in Social Science Research , Education Research and Perspectives, Vol.38, No.1 105

a qualitative study hence the use of a four criteria for evaluating such research encompassing credibility, dependability, transferability and conformability.

To assess the quality of findings in this study, the four criteria of assessing credibility, dependability, transferability and conformability was preferred. Firstly, the credibility of the findings in this research emanates from the fact that the researcher was able to support some of the findings of this research with previous research findings. In addition, the researcher has provided direct verbatim quotation of the opinions of the respondents. To further enhance credibility of this research findings, the researcher would have wished to share the draft report with the respondents to enable them validate the researcher's interpretations, however, this was not possible due to limited time.

Dependability is based on the assumption that a similar study can be repeated in another setting under similar conditions and still yield the same results as noted by Mugenda (2013). In this study, dependability was assured by the research design adopted as documented under the methodology chapter. Nevertheless, it is important to note that such dependability is subject to the context and time when this research was conducted. This time and context factor also has implications on the transferability of the research findings presented here. In addition, other limitations may also affect the transferability of these findings. For example: (a) due to limited resources (time and financial) available to the researcher, the sample size selected may not be sufficient in representing the views of all market players in Kenya, (b) the non-random sampling procedure used to select the respondents through purposive sampling might have introduced some level of bias and might not have also been representative of all the stakeholders in the Responsible Investing field.

To conform to the criterion on conformability, the researcher used an online data gathering technique which is verifiable. In areas where the researcher has presented observations and generalizations, these have been informed by the results of the survey.

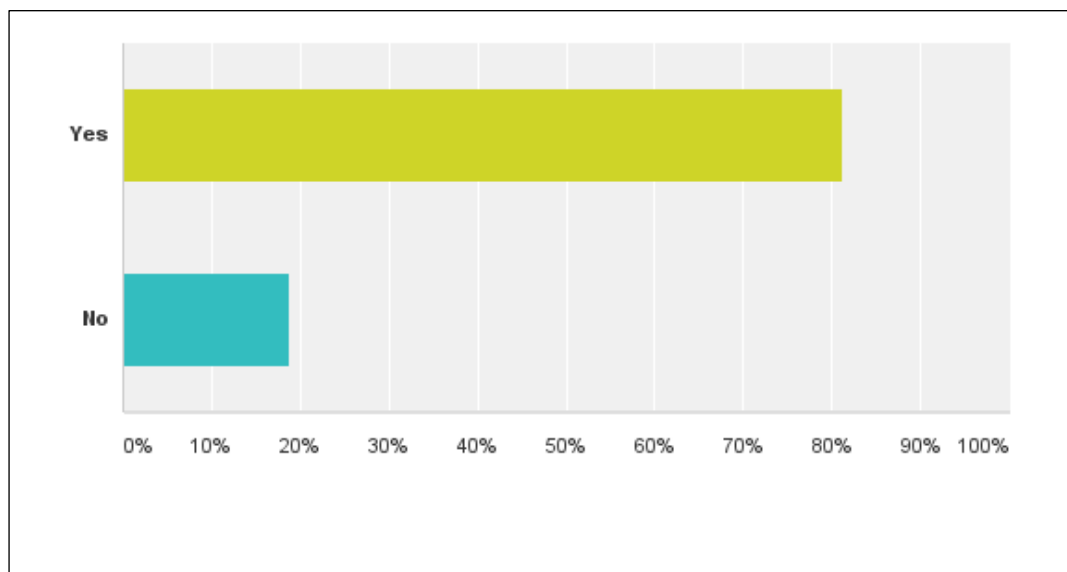
4. RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1. Market Perspectives of Responsible Investing (RI) in Kenya

Attempting to give a comprehensive definition of what Responsible Investing means within the Kenyan context is a rather intricate affair. Literature on this subject indicates that there are multiplicities of terms which are usually used interchangeably to refer to the concept of Responsible Investing. For example Scholtens (2014) has argued that Responsible Investing is also called socially responsible investment or sustainable investment.

In Kenya, like many developing economies, notions of Responsible Investing has been taking place under the auspices of corporate social responsibility under which corporate environmental, social and governance (ESG) issues have been a major point of focus. This argument is supported by Campbell (2007) who notes that in Kenya the language of Corporate Social Responsibility (and its variants) has become institutionalized as more and more companies respond to normative calls for more socially responsible behaviour. However, corporate social responsibility does not suffice in as far as the expectation of what one may consider as Responsible Investing, at least not in the strict definition of the concept. Nevertheless, through this study, about 81% of the respondents indicated that their companies promoted Responsible Investing in Kenya – see Figure 4.

Figure 4: Companies Promoting Responsible Investing in Kenya



Source: Survey 2014

The difficulty in assigning an authoritative definition to Responsible Investing within the Kenyan investment market is further worsened by lack of such a definition and/or regulations on the same by the market regulator, in this case, Capital Markets Authority (CMA). According to the Capital Markets Act Cap 485A, the Capital Markets Authority is the recognized government agency mandated to promote, regulate and facilitate the development of an orderly, fair and efficient Capital Markets in Kenya. Nevertheless, respondent 20 who is a senior officer at CMA noted that CMA promotes Responsible Investing by ensuring that all information provided to investors is appropriate to facilitate informed decisions and carry out investor education activities. The response, thus, was vague and did not fully link directly to the concept of Responsible Investing.

Put in perspective therefore, a number of definitions of what Responsible Investing means to various players arose from this research. In summary, it was evident from the definitions that the concept of Responsible Investing has both a philosophical connotation and the practicability of the same in terms of visible results. For example, Respondent 13 noted that RI is any investment philosophy that recommends investment decisions based upon the decision's ethical implications for individuals and companies. On the other hand, two other respondents gave the following definitions that illustrate the nature of the philosophy of Responsible Investing;

“It is doing business in a manner that goes beyond short term financial returns and which takes into account the requirements of other stakeholders. It targets doing business for the long term, in a manner which is fair to customers, competitors and the society in general.”(Respondent 3)

“RI is a cross-cutting approach to investment which aims to integrate material, environmental, social and governance (ESG) risks and opportunities into investment and ownership decision-making processes across all asset classes and investment styles.” (Respondent 6)

Moreover it was impossible to divorce the concept of sustainability from the definitions. Looking at Responsible Investing from a project perspective, Respondent 2 considered RI as investing that looks beyond financial returns ensuring long term sustainability of a project. This, the respondent argued, means considering the impact of an investment or project on all stakeholders thus ensuring that any sustainable investment results into a positive impact on all stakeholders or at least minimizes the negative impacts as much as possible. This proposition on the sustainability component of Responsible Investing was therefore considered by respondents as going beyond financial gains.

For Respondent 14 and 5, RI is not visibly promoted in their companies and is seen as not being an immediate priority with the need to focus on other aspects of Corporate Social Responsibility considered to be more urgent.

“It is a medium term priority. Our first priority is to promote disclosures on financial, environmental, and corporate social initiatives. We do this through the Excellence in Financial Reporting (FiRe) Award. The FiRe Award is an initiative promoted by the NSE, Capital Markets Authority and the Institute of Certified Public Accountants of Kenya. In the medium term we are looking to promote integrated reporting” (Respondent 14)

Arising from the definitions above, it is clear that the subject matter of defining the concept of Responsible Investing is still an issue that will continue to attract divergent views. It is nonetheless apparent that two fundamental aspects distinguish Responsible Investing; investing with a notion that transcends financial gains - meaning considering other environmental and social impacts and the measurability of these impacts.

While it has been argued here that Kenya is yet to fully appreciate Responsible Investing in its entirety, this research found out that majority of companies listed in the Nairobi Securities Exchange (as noted by 80% of the respondents) promote Responsible Investing through sustainability reporting, undertaking Corporate Social Responsibility and adhering to the Corporate Governance Code as local regulations. According to Respondent 2 who works with International Finance Corporation (IFC), environmental, social and governance issues are a core part of the due diligence process and all agreements with IFC include clauses to ensure that investee companies maintain acceptable standards in all the three areas. Therefore, as a Development Finance Institution (DFI) it promotes Responsible Investing by ensuring that it only lends capital to those investments that will fully and effectively embrace RI. On the other hand, for individual corporate organisations and especially those undertaking fund management, this research found out that RI is mainly implemented under specific company policies with key input from stakeholders. For example Respondent 4 noted that:

“All investments are approved by the Board or its Investment Committee who require a report on the sustainability of the investments. The Risk Department also reviews each of the investments to ensure that any risks affecting sustainability of the investments are addressed. Annually, the company reports on the sustainability of the investments.” (Respondent 4)

Respondent 5 noted that their company does not promote Responsible Investing, but it nevertheless evaluates some aspects by ranking the quality of management as regards strategy and environmental appreciation. It was further noted by the Respondent that as yet, Responsible Investing has not been an area of focus for most of their clients since they have both discretionary and quasi-discretionary mandates on where and how to invest.

According Respondent 14 who is a senior employee at CMA, their role is primarily a facilitative one that does not include the promotion of one investment strategy over another. Moreover, as a public agency, theirs is to ensure that the capital markets are orderly, fair and robust so that investors can participate in the markets with confidence in the institutional, policy and regulatory structures within. Hence they do not give investment advice, rather, ensure that market players are properly supervised as well as have good corporate governance practices so as to enhance investor protection and market confidence. CMA nevertheless, aim to ensure that all information provided to investors is appropriate to facilitate informed decision making and carry out various investor education activities to create awareness. As an example, by publishing the Capital Market Corporate Governance Regulations in 2011 and running education drives on the same policies with the relevant stakeholders, CMA has partly provided the enabling environment for Responsible Investing to thrive.

4.2. Environmental, Social and Governance (ESG) Issues in Corporations in Kenya

According to a report by the Centre for Financial Market Integrity (2008), non-financial factors including environmental, social and governance (ESG) factors have featured more prominently in Responsible Investing valuation of corporations. This is a departure from the norm where analysts are generally well versed in using financial metrics to understand those drivers of corporate value and interpretation of what is often highly detailed accounting data. In addition, this report notes that environmental, social and governance (ESG) is now a global concept and a prominent feature of local and international business, with its practice localized and differing across countries.

ESG aspects have been demonstrated under the previous discussions to be a fundamental component in considering whether an investment can be given the RI tag. Moreover ESG aspects provide the requisite benchmarks out of which various indices can be developed for measuring the impact of Responsible Investing. This study therefore also sought to find out which environmental, social and governance issues are considered fundamental and worth consideration either in developing a Responsible Investing strategy or in adopting a Sustainability Index for the Kenyan

market. The findings indicate that there is still limited understanding amongst market players on what constitutes environmental, social and governance issues. Table 6 below summarizes the top environmental, social and governance issues that the respondents consider material in successful RI within Kenya. The diversity of responses in each category demonstrates the varying mind-sets and organizational background on the subject of sustainability.

Table 6: Summary of Issues for Consideration within the Context of RI

	Issues for consideration within the context of RI		
	Environmental	Social	Governance
Respondent 1	<ul style="list-style-type: none"> - Weak legislative framework. - Corruption at NEMA. 	<ul style="list-style-type: none"> - Corruption. - Poverty. - Superficial CSR activities. 	<ul style="list-style-type: none"> - No rotation of external auditors. - Lack of independence of the audit committee. - No separation between Co. board and management
Respondent 2	<ul style="list-style-type: none"> - Local legislation is very with little enforcement. - Lack of awareness. - High cost of implementing environmentally friendly processes. 	<ul style="list-style-type: none"> - Poverty levels and high unemployment. - Weak legislation. 	<ul style="list-style-type: none"> - Large SME base with insufficient resources. - Corruption. - General lack of willingness by regulators.
Respondent 3	<ul style="list-style-type: none"> - Regulatory limitations that do not encourage SRI. 	<ul style="list-style-type: none"> - Poor perception of RI as having a potential to make a return. 	<ul style="list-style-type: none"> - No benchmarks. - Not clear who is responsible for implementation.
Respondent 4	<ul style="list-style-type: none"> - Insufficient codes to guide environmental management. - Insufficient awareness by the public. - Insufficient infrastructure. 	<ul style="list-style-type: none"> - Large section of the population is in need of basic goods and services. - Underpowered minority and disenfranchised groups. - Insecurity. 	<ul style="list-style-type: none"> - Inadequate laws to protect minorities and vulnerable groups. - Inadequate enforcement and justice systems. - Inadequate governance codes.

Respondent 5	<ul style="list-style-type: none"> - Environmental impact from mining companies. - Quality of goods produced vis-à-vis consumer health. - Pricing of goods and services. 	<ul style="list-style-type: none"> - Employment. - Health. - Diversity regardless of ethnic backgrounds. 	<ul style="list-style-type: none"> - Quality of management. - Accountability and disclosure levels. - Conflict of interest between Board and Management levels.
Respondent 6	<ul style="list-style-type: none"> - Deforestation. - Water depletion. - Biodiversity loss - encroachment from urban sprawl. 	<ul style="list-style-type: none"> - Human rights. - Retirement security. - Access to health care, education. 	<ul style="list-style-type: none"> - Lack of independent boards. - Opacity as pertains to organisation structure and corporate strategy. - Proxy voting - poor mechanisms.
Respondent 7	<ul style="list-style-type: none"> - Poor mechanisms on waste management. - Availing cheap goods without harming the environment. - sourcing inputs sustainably. 	<ul style="list-style-type: none"> - Corporate citizenship; improving the lives of its customers, employees and shareholders. 	<ul style="list-style-type: none"> - Reducing Bureaucracy.
Respondent 9	- No Response.	- No Response.	- No Response.
Respondent 10	<ul style="list-style-type: none"> - Limited scope of environmental agenda within companies. - Very few companies with environmental objectives. 	<ul style="list-style-type: none"> - No tools available for measuring social impact. - Very few companies with clearly defined social objectives. 	<ul style="list-style-type: none"> - Lack of independence of the boards. - Poorly qualified board members with some organisations lacking representation. - High dependency of an organization on few individuals.
Respondent 12	<ul style="list-style-type: none"> - Dumping waste. - Extraction of minerals in a manner detrimental to the environment. - Lack of local community participation. 	<ul style="list-style-type: none"> - Unfair wage practices. - Unfair hiring practices. - Poor attention given to occupational safety issues. 	<ul style="list-style-type: none"> - Lack of functioning boards. - Lack of board sub committees. - Lack of board independence with directors assuming executive roles.

Respondent 13	- Improving responsible citizenship.	- Alcohol consumption and smoking.	- Conflict of interest. - Greed and selfishness.
Respondent 14	- The need for job creation in conflict with protecting the environment.	- Not enough government commitment. - Youth unemployment - Insecurity.	- Vague disclosure guidelines. - Not enough drive from investors.
Respondent 15	- Few investment opportunities. - Huge on traditional investment areas like land. - Over reliance on formal employment.	- Group mentality when investing. - Poor economic position of most investors. - High dependency ratio in our society.	- Lack of sufficient disclosure by companies. - Lack of accurate information. - Insider trading and information asymmetry.
Respondent 16	- No Response	- No Response	- No Response
Respondent 17	- Pollution and waste disposal. - Deforestation.	- Corruption. - Politics. - Tribalism.	- Lack of proper governance structures. - Conflict of interest.
Respondent 18	- No Response	- No Response	- No Response
Respondent 19	- Not sure.	- Peer pressure either intra industry or across industries.	- No previous rationale for making RI mandatory. - Regulators not seeing RI as a huge opportunity.
Respondent 20	- Pollution and climate change. - Deforestation and land degradation. - Waste management.	- Human rights. - Social inequalities/labour conditions. - Poverty.	- Corruption. - Transparency and accountability. - Business ethics.

Indeed it has been argued that ecosystem services, such as water quality and quantity, clean air and fertile soil among others enable production, profits, growth and development of corporate firms in Kenya (Krystyna, 2009). In Kenya, the Environmental Management Co-ordination Act (EMCA, 1999) provides guidelines on environmental management which corporate firms are expected to comply with. Corporate firms' budgets should therefore reflect the true investment requirements to ensure sustainable environmental management as a factor of production supporting growth (Krystyna, 2009). This normative perspective is nonetheless limited by a number of challenges as espoused by Respondent 10 who argued that very few companies in Kenya have

environmental objectives thus limiting the scope of potential investees. Similarly, Respondent 4 identified three main factors that jeopardize mainstreaming of environmental issues in corporations: (a) insufficient codes to guide environmental management; (b) insufficient awareness by the public on environmental matters and (c) insufficient infrastructure to adequately deal with environmental waste.

Social factors play an increasingly expanded role in the public's perception of listed companies. According to the Centre for Financial Market Integrity 2008 Report, news of a poor safety record or the use of forced labour has the potential to damage a company's reputation. Investors need to understand the social risks that threaten the reputation and brand integrity of the companies in which they invest (Wamalwa, 2003). Overtime international NGOs such as Oxfam, Ethical Trading Initiative, and Transparency International have actively been involved in monitoring supply chain, human rights, and labour conditions in Kenya. Opondo (2009) has noted that corporations are likely to act in socially responsible ways if there are strong and well-enforced state regulations, industry associations and private independent organisations such as NGOs who encourage, monitor, enforce rules and regulations.

The social issues as listed by the respondents require sufficient consideration by corporations to facilitate Responsible Investing. Ngondi and Houghton (2005) argue that the African values of community spirit and social responsibility define the type of behaviour that is deemed appropriate for companies operating in Kenya and to remain legitimate, companies must respond to different stakeholders' needs and expectations. Full integration of social issues is, however, limited by a number of factors as espoused by Respondent 10 who noted that:

“Organisations do not have internally generated tools of tracking and measuring the impact that they have on their clients. Measuring social impact is thus very difficult. Very few organisations have clearly defined social objectives and for those that do have, it is hard to link these objectives to the products that they offer to the public. Organisations do not have an accountability system for assessing their level of social impact. Management often times does not have a social report, neither does it report to the Board on social metrics. Therefore they do not place much emphasis on ensuring that social objectives are met.”
(Respondent 10)

Lack of access to basic social amenities and high poverty levels was mentioned by at least six respondents as being interlinked with unemployment and insecurity in some parts of the country.

The governance component of the responses seemed to be themed around issues related with the functioning of Company Boards and their effectiveness as an independent arm of the business. As noted by Respondent 12 this seems to be endemic to the corporate scene in Kenya:

“Lack of functioning Boards with a well-defined mandate; lack of Board sub committees and lack of Board independence with directors assuming executive roles is a common problem in Kenya.”(Respondent 12)

While noting that the interests of shareholders are most times conflicting with the interests of managers, Becher and Campbell (2004) argue that governance concerns cover the area of investigation into the rights and responsibilities of the management of a company – its board, shareholders and the various stakeholders in a company.

Some of the governance issues identified by respondents included corruption, transparency, accountability and business ethics. These factors manifest in various forms to which the overriding factor according to majority of the respondents was lack of independence. It was further reported that these boards lack proper representation across all spectrums of expertise according to the specific industry. Further, owners play a big role in both running the company and making executive/board decisions thus impacting on impartiality and making the organization heavily dependent on an individual or group of individuals'. The departure of such an individual(s) from the company exposes the business to potential disruption of its activities and eventual discontinuity of service.

Corporate governance and social responsibility should become the philosophy of business enterprises in, among other things, setting standards of quality and integrity; respecting the physical environment by using and managing all resources including air, water and forests sustainably; recognizing the dignity and worth of all their employees and the people in their communities; and innovating to meet unfulfilled needs of the society.⁹

4.3. Challenges and Opportunities for Responsible Investing in Kenya

To further understand challenges and opportunities for RI in Kenya, the researcher asked respondents to give their opinion on what they considered to be the benefits that may accrue from Responsible Investing. While noting that a corporation is not an isolated entity which strives to achieve its goals within the environment thus affecting the society around it, Respondent 20 opined

⁹ See Launching Corporate Governance in Africa with an Emphasis on Kenya; www.cipe.org;

that such a corporation consequently has a responsibility to ensure that as it continues its operations, it ensures that its operating environment is not affected negatively. In this regard Respondent 20 summarized the main benefits of Responsible Investing as below:

“A corporation is not an isolated entity. It strives to achieve its goals within the environment and in doing so also affects the society around it. Consequently, it has a responsibility to ensure that as it continues its operations, its operating environment is not affected negatively. In this regard, and in my view, the three main benefits of Responsible Investing, with no order of priority, include: long term growth/value creation; benefits to the environment and society; sustainable financial returns.” (Respondent 20)

According to Respondent 13, Responsible Investing ensures that the image of the company is well protected and through this, shareholders wealth is maximized. In addition, the Respondent noted that through Responsible Investing, well experienced and qualified employees are attracted to work for the company. This last point was re-emphasized by Respondent 19 who noted that:

“People want to work in a company that they feel does the right thing for the right reason always.” (Respondent 19)

In this manner, Respondent 6 was of the opinion that Responsible Investing promotes a more holistic view on long-term value creation, applicable across all asset classes. This results in overall responsible business to customer service, employees, communities and environmental management.

Based on the potential benefits of Responsible Investing, respondents were also asked to identify what they would consider as the main challenges of realizing the benefits of Responsible Investing. From the findings, three main challenges were identified. Firstly, there is a broad lack of understanding and awareness on the concept of Responsible Investing. The focus for most investors seems to be only on the 'rate' of growth and not the 'how' of growth, which is more sustainable. According to Respondent 19:

“The benefits of Responsible Investing might not permeate across the whole organization in that though the senior leadership would understand it - the lower level might neither get it nor care much about it.” (Respondent 19)

This depicts the extent to which Responsible Investing as a philosophy has not infiltrated other segments of the Kenyan society. Respondent 7 observed that this scenario illustrated the apparent focus on short term gains, lack of patience and lack of information).

Secondly, there lacks an appropriate and efficient regulatory framework for Responsible Investing as exemplified by the current political framing/regulation of the financial markets through regulatory authority, which is ill-empowered to enforce RI principles. There therefore lacks regulatory clarity as noted by Respondent 20 who works at the Capital Markets Authority. In addition, Respondent 20 reported that there are no broadly recognized, long term performance benchmarks for implementing Responsible Investing paradigms. This proposition is supported by Respondent 19 who argues that there is no proactive rationale for organisations to aspire to the metrics of RI since there's no major requirement to deliver on these metrics as a rule. Thirdly, as Respondent 6 plainly argues, there is no requirement by clients or the regulator to compel investors/corporations to ensure Responsible Investing. Respondent 20 emphasizes on the lack of technical skills amongst the investment analyst population to undertake portfolio review exercises whilst weighing ESG factors to attribute the risk and opportunities within a portfolio and link that into the decision making. This could be arising from the unavailability of information on investors looking to partner with Responsible Investing companies as argued by Respondent 4 or conflict of interest between management and the companies they are running

Based on the above circumstances, the researcher also sought to know the challenges that curtail improved visibility of Responsible Investing in Kenya.

Firstly, it was noted by Respondent 12, that very few companies actively publish sustainability reports. It is thus difficult to judge their efforts on this metric. Secondly, the Respondent went to observe that companies are unwilling to implement recommendations around ESG and where they do pledge implementation, it is difficult to hold them to account due to the dearth of investment opportunities). Therefore, Respondents unanimously agreed that lack of proper knowledge and information on Responsible Investing, lack of technical capacity amongst practitioners and lack of clearly defined tools to measure a company's performance within the context of Responsible Investing paradigm accounted for the main challenges impeding evaluation of Responsible Investing in Kenya. To support this proposition, Respondent 4 argued that there is no index for measuring Responsible Investing in Kenya and therefore companies are not clear on what is considered to be Responsible Investing nor can they reap the benefits of Responsible Investing.

These findings are similar to those by Pilaj (2013) who noted that lack of information on sustainable and responsible investment, aspects of consumer behaviour, especially the so called *status quo bias*, potential disadvantages with regard to transaction costs and/or performance, lack

of transparency of sustainable and responsible investment criteria and problems of image and reputation as the reasons behind the relatively low proportion of SRI and the entry barriers to retail investors.

The researcher further sought to know from the respondents what the enablers to facilitate adoption and growth of Responsible Investing initiatives in Kenya would be. One of the drivers identified by the respondents was the need for an enhanced legislation which would among others put in place provisions requiring companies to report on Responsible Investing uptake, provide for more transparency coming through from companies and better management access and response with regards to ESG issues and enhance commitment from the Government as a regulator. In a study which explored the factors that impact the growth and development of the Socially Responsible Investment (SRI) sector in South Africa, the availability of SRI information was a challenge but one that was felt to be becoming easier as a result of more pressure being placed on companies to disclose ESG risk management through sustainability reports accompanying annual financial statements and the FTSE/JSE SRI Index which has become a catalyst in encouraging companies to comply with ESG reporting requirements.¹⁰

Increased awareness of Responsible Investing as an option for business sustainability was identified as the second driver. According to Respondent 10, creation of awareness amongst organisations on the need to have fully rounded institutions that are not only focused on maximizing shareholders' wealth would be fundamental. This, according to Respondent 10, would lead to the emergence of local investors with a bias for investing in institutions that are socially responsible or whose mission statements seek to promote sustainable investments contrary to the current scenario where funding needs for local investors is met by international investors who have an appetite for impact and social investing. Lastly, respondents were of the opinion that sustained investor pressure through shareholder and stakeholder activism would contribute immensely in driving the course for Responsible Investing in Kenya.

In summary, majority of the respondents were in agreement that future growth in the Responsible Investing realm in Kenya would be driven by an enhanced legislative framework, increased awareness and stakeholder activism and pressure on companies to comply with RI themes.

¹⁰ See Herring A., Firer C. and Viviers S. (2009) Key challenges facing the socially responsible investment (SRI) sector in South Africa, Investment Analysts Journal – No. 70 2009, www.iassa.co.za

4.4. Dynamics of Implementing Sustainability Index in Kenya

As shared in the literature review, a Sustainability Index refers to a measure that serves to systematically, accurately, consistently, and transparently assess the environmental, social, governance (ESG) and economic performance of corporations. One of the fundamental aims of this research was to find out whether the introduction of a Sustainability Index would be appropriate for the Kenyan investment market as it strives to embrace Responsible Investing. From the survey, two divergent opinions were advanced by the respondents – majority of the respondents from both the private sector and the market regulator were unanimous on the need for a Sustainability Index in Kenya arguing that it would be timely, while others did not.

Some respondents who did not favour the introduction of a Sustainability Index said:

“At the present time I do not believe that there exists a need for a Sustainability Index in Kenya. We have less than 60 listed companies and less than 25 are investment grade. Therefore, enough diversity does not exist. We also do not yet have sophisticated local investors who would appreciate Responsible Investing as a style bias and therefore allocate funds on the back of that.”

As the concept of Responsible Investing grows in Kenya, there is definitely a need for a Sustainability Index customized within the Kenyan context so as to measure, track and compare companies' efforts in this area (Respondent 12).

Some of the arguments in support for a Sustainability Index in Kenya are discussed herein. Respondent 3 noted that a Sustainability Index is quite relevant as it would provide a transparent mechanism for investors looking to invest in companies which are sustainable. According to Respondent 4 a Sustainability Index would be very useful for companies looking to gauge and improve their sustainability practices as well as providing a platform for comparing practices and standards. Respondent 5 noted the following:

“SI will provide sanity checks on what companies are doing and how they achieve their end goals keeping in mind 'the wellbeing of the greater surrounding.’” (Respondent 5)

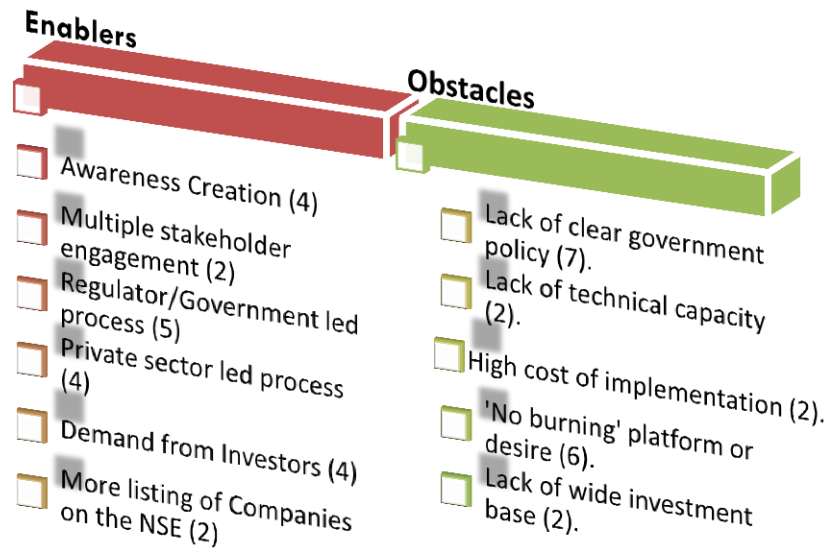
According to Respondent 15, SI should be embraced in as much as the market is still small and growing, arguing that early introduction of the same could shape the future investment culture in

the country. On his part, Respondent 13 argued that there is need to have a Sustainability Index in Kenya with a view to promoting RI in the country and that there should be consolidated efforts to deliver on it for assured achievement. Respondent 10 observed that such an index would serve as a much needed tool of appraisal for social and impact investors thus reducing the time spent on investment appraisals.

To do this, support from the various regulators and professional bodies (Institute of Certified Public Accountants of Kenya - ICPAK, Kenya Bankers Association, Kenya Association of Manufacturers - KAM) was identified by Respondent 2 as key especially in demonstrating the long term benefits of responsible investment evaluation through the lenses of a Sustainability Index. Moreover, the shift in the global mindset from conventional investment to sustainable investment was also identified as another key enabler in the implementation of a Sustainability Index in Kenya as a number of potential investors would be interested in assessing a company's sustainability, over and above assessing its financial performance as observed by Respondent 10. Lastly, it was noted by Respondent 3 that the securities exchange in Kenya is receptive to the idea of indices with specific attributes further providing an opportunity for the implementation of a Sustainability Index.

Despite the above enablers and opportunities for implementing a Sustainability Index in Kenya, respondents were also quick to warn on potential obstacles that are likely to impede such a process. Some of the obstacles as identified by the respondents were; lack of information/data, reluctance on the part of corporate firms, difficulty in building consensus on parameters and measures to be used in the index, weak regulatory framework and poor implementation, impunity and corruption - see *figure 5* There would also be a need for buy-in and a sense of ownership where the industry players themselves would be the key implementers of SI as noted by Respondent 3:

Figure 5: Enablers and Obstacles for SI in Kenya



In closing, the implementation of an SI Index will require a sense of ownership and drive from all stakeholders (Government, Regulators, Securities Exchange, Fund Managers and Listed Companies) and as shared by Respondent 20 this will be dependent on effective leadership and awareness creation.

5. RESEARCH CONCLUSIONS

“The defining challenge of the 21st century will be to transform the system governing markets so that they work for, rather than against, sustainability.” One Planet Business: Creating Value within Planetary Limits (2007).

Kenya is currently being classified as a “frontier” economy with consistent economic performance. The economy has remained strong and resilient on the account of commitment by the Government to the implementation of transformative economic policies and structural reforms. One of the five key areas under the country’s ‘Strategy for Economic Transformation’ relates to *creation of a conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities.*

This research aimed at linking the growing sophistication of the financial markets in Kenya with the possible creation of a Sustainability Index. The study did this by analysing and investigating three aspects: *the state of Responsible Investing in Kenya; critical ESG issues that may be measured within a Sustainability Index; and the enablers and obstacles of implementing a Sustainability Index in Kenya.*

Institutional investors have grown by 370% in the last five years to KES 565 billion (USD 6.3 billion), whilst the proportion of the total assets invested into quoted and unquoted equities is now at 25%. This shifting terrain towards equities has been due to the investment guidelines released by RBA in 2013 that have set statutory investment maximums for a variety of asset classes. This was after the realisation that majority of pension funds were heavily invested in real estate related assets that are illiquid with marginal returns. The focus is now on a more balanced portfolio mix that will generate a targeted return of 200 basis points above the 182 day Treasury Bill Rate.

This shift results in the need to look into the possibilities of embedding Responsible Investing into our financial markets, with a possible starting point being on quoted equities based on the futuristic potential to be a material investment avenue for institutional investors. Responsible Investing is perceived to be linked with sustainability practises and good corporate citizenship. The perceptions in Kenya are still closely linked with Business Ethics, CSR and are heavily pegged on corporate governance. The broader notions of social and environmental impact assessments are not tied to the ‘umbrella’ of Responsible Investing. Some of the respondent fund managers clearly stated that their firms do not promote ‘Responsible Investing’ due to the perceived notions that the

industry is too small and this should only be a medium term concern. This calls for a shift in mind-set amongst the various industry players (Regulators, NSE, Investment Banks, Fund Managers and Listed Companies) to be sensitised on the wider scope of Responsible Investing and its inherent value as a practice.

The *Environmental* issues depicted as most critical to be measured were pollution, waste management, policies on environment management practices, sustainable sourcing of inputs (water, timber) and quality of goods produced and their link to promoting consumer health. On the *Social* front the measurable demand areas were job creation, poverty alleviation, health and safety of employees and communities in which they operate, labour conditions and diversity in terms of ethnicity were the measurable demanded areas. On *Governance*; corruption, set-up of independent board sub-committees, separation of the company boards and management, proper governance disclosures and organisational structure as key links to the long-term corporate strategy were the major need areas for measurement.

Public measures are an increasingly common aspect of organizational life (Power, 1997). Reactivity can be seen as a process that changes organizational behaviour in line with the measurement criteria. The internalization of the perceptions and frames that underlie public measures change internal cognitive structures, which can lead to longer term changes in organizational behaviour (Slager,2010).

There are clear ESG issues that need to be disclosed, reported in a structured manner and measured over time to establish the impact of a company's activities on its immediate environment and be embedded for the future, based on its business model.

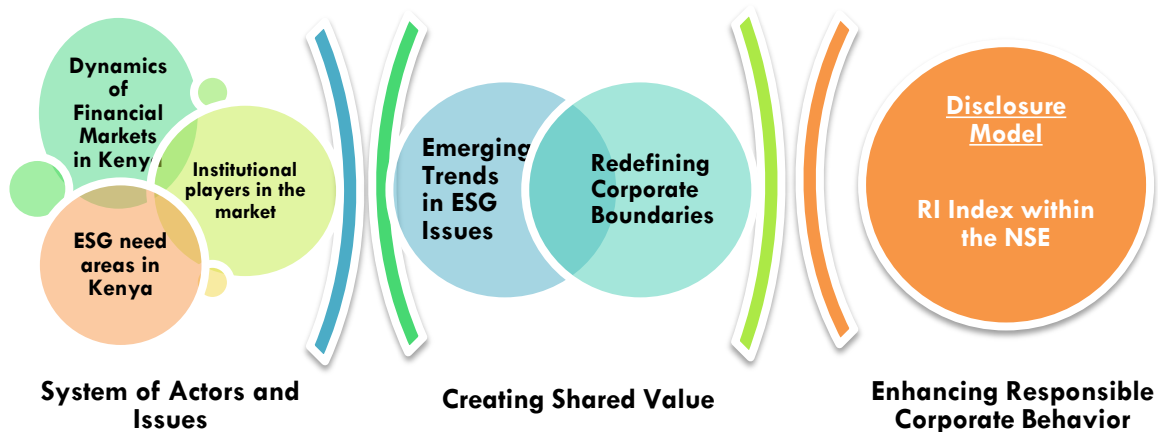
The creation of a Sustainability Index can be a process led by the regulator (CMA); the securities exchange (NSE) or the private sectors players (fund managers/investment banks). The institution that is most appropriate to launch the SI index is dependent on Kenya's unique circumstances. The NSE does not have regulatory authority and does not set listing rules. Consequently, the respondents in this research exercise were biased towards the regulator (CMA) taking the lead in setting up the Sustainability Index which can be implemented as either a voluntary or mandatory initiative.

Similarly, as 30% of the listed companies make up more than 80% of the market capitalization, the initial roll-out of the SI index can target these enterprises since this is bound to have a material

impact on their environmental, social and governance footprint. Employing a voluntary scheme can be particularly appropriate when introducing the initiative to the market.

Embedding Responsible Investing in Kenya will entail understanding the System of actors, so as to look at opportunities of creating shared value whilst setting this up in the right disclosure model so as to ensure that the country can measure its progress in sustainability through enhancing Responsible Corporate Behaviour as depicted by the *conceptual framework* in figure 6 below:

Figure 6: Responsible Investing in Kenya



This study has assisted to uncover the institutional players, market dynamics and thematic ESG need areas. The trending ESG issues will be converted into business opportunities by the corporate sector to create shared value; shareholder and stakeholder activism would contribute immensely in driving the course through the right legislative framework and improved disclosures. RI awareness and creation of a 'burning platform' on sustainability issues by the CMA will foster further discussions on the right disclosure model and the need for listed companies to publicly share their sustainability reports. A measurement tool such as the Sustainability Index will rank the various companies based on their performance in the various ESG segments and foster some form of

competition. This will in turn lead the listed companies to redefine their corporate boundaries to incorporate being social and environmental agents of change.

Thousands of companies worldwide produce sustainability reports. Their quality is improving, as a consequence of the availability of ever-better reporting guidelines. In twelve years, the proportion of the world's largest 250 companies practicing sustainability reporting grew from 35% to 95% (UNEP, 2013).

Kenya is at its optimum phase of development to inculcate and embed the principles of Responsible Investing.

6. RECOMMENDATIONS FOR FUTURE RESEARCH

The findings from this study summarize the high priority enablers and obstacles to implementing a SI in Kenya as mentioned by the respondents. These provide for the perception 'hurdles' and opportunities that can be further investigated in future research.

Evaluating the awareness gaps of Responsible Investing in Kenya and recommending appropriate avenues of closing these gaps to ensure a well enlightened investor community, market players and an enforcing regulator would change the investment landscape of Kenya.

A number of approaches of implementing a SI in Kenya have been discussed in this thesis. This vary from a multi-stakeholder engagement process, regulator led process to a private sector led process. Further work needs to be done to establish the optimal implementation model in order to ensure wide spread adoption and buy-in by the market.

Many respondents mentioned a narrow investment platform that did not allow for the building up of this stylistic bias in the name of 'Responsible Investing' since the material investment 'grade' companies were few and the investment opportunities in the country fewer. This raises the issue of the need to determine whether a securities exchange needs to be fully mature to create a RI Index or whether the current stage of the NSE's journey represents the ideal time to embed RI initiatives.

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APPENDIX – Questionnaire Guideline

QUESTIONNAIRE SCHEDULE

RESEARCH TITLE: RESPONSIBLE INVESTING IN KENYA; EVALUATING THE NEED FOR A SUSTAINABILITY INDEX ON THE NAIROBI SECURITIES EXCHANGE.

RESEARCH PURPOSE: The purpose of this study is to evaluate the need for a Sustainability Index on the Nairobi Stock Exchange through the lenses of Responsible Investing in Kenya

Declaration: The information and data collected will be confidential and is intended purely for the research study being undertaken for a thesis that forms part of the requirements to complete a Master of Commerce in Development Finance at the Graduate School of Business, University of Cape Town

Name of Researcher.....Name of Supervisor.....

Time:.....Date:.....Schedule No.....

SECTION A: RESPONDENT'S CHARACTERISTICS

1. Gender of the respondent?
 - (a) Male
 - (b) Female
2. Educational background of the respondent?
 - (a) Accounting / Finance
 - (b) Economics
 - (c) Social Sciences / Development studies
 - (d) Law
 - (e) Other (specify)
3. What is your job designation?

- (a) Chief Executive Officer
 - (b) Other (specify)
4. What does your job entail?
- (a) Portfolio/Investment Management
 - (b) Financial Analysis
 - (c) Investors/cooperate Relations
 - (d) Marketing
 - (e) Compliance
 - (f) Other (specify)
5. How long have you worked in the company?
- (a) 0 to 5 years
 - (b) 5 to 10 years
 - (c) 10 to 15 years
 - (d) Above 15 years

SECTION B: RESPONSIBLE INVESTING (RI)

Sustainable and responsible investment is an approach to investing that takes into account long-term economic, environmental and social trends, and aims at managing related risks and seizing opportunities with the goal of improving risk-adjusted returns. It entails the integration of environmental, social and governance (ESG) factors in investment analysis and active ownership strategies such as proxy voting and company engagement.

- 6. How would you define Responsible Investing (RI)?
- 7. Generally speaking, what is the company's position with regard to Responsible Investing (RI) in Kenya?
- 8. Does your company promote Responsible Investing within the capital markets in Kenya?
- 9. If Yes, what mechanisms, if any, has the company put in place to facilitate Responsible Investing (RI) among the firms it regulates in the capital markets in Kenya?
- 10. If No, why?
- 11. In your opinion, what would you consider to be the three main benefits of Responsible Investing within the capital markets in Kenya?

12. What do you consider to be the three main challenges in realizing the benefits?
13. What challenges are there in evaluating Responsible Investing in Kenya?
14. What the three main environmental issues relating to Responsible Investing in Kenya?
15. What the three main social issues relating to Responsible Investing in Kenya?
16. What the three main governance issues relating to Responsible Investing in Kenya?
17. What do think will be the top three drivers of future growth in the Responsible Investing realm in Kenya?

SECTION C: SUSTAINABILITY INDEX

A Sustainability Index refers to measures that serve to systematically, accurately, consistently, and transparently assess the environmental, social, governance (ESG) and economic performance of corporations.

18. What is your opinion on the need for a Sustainability Index in Kenya?
19. What obstacles are likely to impede implementation of a Sustainability Index in Kenya?
20. What are the likely enablers in the implementation of a Sustainability Index in Kenya?