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The Triple Bottom Line and Strategic Sourcing Decisions among Commercial Banks in Kenya

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Abstract

The Triple Bottom Line is a concept that brings together three important dimensions: the economic; the social and the environmental. These three dimensions are important in addressing sustainability in business operations. This study aimed at establishing the relationship between TBL and strategic sourcing decisions among commercial banks in Kenya. The study also sought to establish the extent to which commercial banks in Kenya have adopted TBL in making strategic sourcing decisions. The study adopted a descriptive research design of cross sectional type where a census of all the 43 commercial banks was conducted. Data was successfully collected from 39 commercial banks through a questionnaire. The data was analyzed using descriptive statistics where percentages and frequencies were used to establish the extent of TBL adoption in making strategic sourcing decisions while regression analysis was used to establish the relationship between TBL and strategic sourcing. The findings indicate that most commercial banks in Kenya have adopted TBL in their strategic sourcing decisions to varying degrees. The areas where TBL application was evident include: management of suppliers; meeting customer needs; environmental conservation and community social responsibility. The study also encountered a few limitations such as uncooperative respondents who were unwilling to fill the questionnaires. Some respondents also feared filling the questionnaires due to the high degree of confidentiality that is required in banking.

Keywords: Triple Bottom Line, Strategic Sourcing, Sustainability

1. Introduction

The modern business environment is characterized by severe competition, increased globalization, a robust desire for notable economic development as well as higher standards of living by most people (Gopalakrishnan et al., 2012). The above mentioned developments are unfolding at a time when the world's natural resources are plummeting fast with no hope of replenishment. It is believed that the major causes of extensive depletion of the natural resources are unrelenting consumerism and incessant search for resources that can satisfy the increasing needs and wants of the world's growing population that is becoming predominantly middle class (Gopalakrishnan et al., 2012).

In order for companies to safeguard the resources, there is need to practice sustainability in most of their operations. Carter and Easton (2011) assert that sustainability is becoming a popular practice not only in the business environment but also in the broader side of the society. They further argue that there are a number of drivers that necessitate sustainability practices such as the supply and demand for various products, distinctiveness surrounding energy consumption, increased awareness of the science relating to climate change as well as greater transparency concerning both the environmental and the social actions of organizations. Organizations should note that in order for them achieve sustainability in their operations, supply chain sustainability is very crucial since it plays an important role in the organization. Elkington (1994) indicates that it has become progressively clear that businesses must play a fundamental role in achieving the goals of sustainable supply strategies. Sustainability in supply chains can be attained through adoption of the Triple Botton Line (TBL) approach in making various strategic decisions. The economic, social and environmental issues must be addressed when making strategic decisions in the organization.

The Triple Bottom Line is referred to as sustainable corporate performance. It consists of three components: economic; social and environmental aspects (Fauzi et al., 2010). These three components mentioned above are the ones referred to as the ''triple bottom line'' or 3BL. TBL was first introduced by John Elkington in the 1990s and it focuses on the economic, social and environmental aspects of an organisation's activities. The economic component of the TBL deals with profit making, attaining and sustaining competitive advantage through sustainability. The environmental dimension involves factors relating to climate change, global warming, air, land and water pollution as well as depletion of the ozone layer. Under the social component there are a number of issues addressed such as health and safety, community well-being, employment opportunities, charities; cultural issues organisational behaviour (Gopalakrishnan et al., 2012).

Adopting TBL in strategic sourcing is never optional but the only alternative since it has a competitive aspect for organizations. Elkington (1994) indicates that companies are under so much pressure from various stakeholders such as customers, lenders, regulators and environmentalists to disclose more information regarding their environmental goals and performance. With this pressure, the present age business community has no alternative other than embracing sustainability including at supply chain level.
The United States Department of Defence (2007) defines strategic sourcing as a collaborative and structured process of analyzing an organization's spending and using the information obtained to make business decisions on acquisition of commodities and services more effectively and efficiently.

Rawlinson and Howie (2007) argue that strategic sourcing goes beyond the boundaries of the simplistic formula of noncore aspects of an organization. It also includes a strategic approach to sourcing that connects the company's operational base to its business aspirations. Strategic sourcing ensures that the service delivery model of an organization is not only aligned with, but can also help to propel frontward, the significant operational and information technology aspects of its corporate strategy. This will include reviewing the basics by bearing in mind the direction in which the business is heading and using sourcing options to propel it there.

The banking industry in Kenya seems to be growing at a fast pace. Firms that started as microfinance institutions are transforming themselves into commercial banks. According to Central bank of Kenya (2012) statistics, Kenya currently has 43 licensed commercial banks and one mortgage finance company. Of these 44 institutions, 31 are locally owned and 13 are foreign owned. Citibank, Habib Bank and Barclays Bank are among the foreign-owned financial institutions in Kenya. The government of Kenya has a substantial stake in three of Kenya's commercial banks. The remaining local commercial banks are largely family owned. Commercial banks in Kenya accept deposits from individuals and turn a profit by using the deposits to offer loans to businesses with a high interest rate (Central Bank of Kenya, 2012).

Commercial banks in Kenya have exhibited various forms of strategic sourcing in a number of activities. The sourcing decisions made by banks revolve around what to make in-house and what should be outsourced by commercial banks. In the recent past, banks have outsourced a number of services such as the replenishment of Automatic Teller Machines which is mostly handled by private security firms, the provision of security services also handled by private security firms, catering services that are mostly handled by outsourced catering firms and outsourcing of transport services to private cab companies. Banks have also embarked on widespread Information technology application in order to achieve paperless banking thus responding to environmental conservation (Central Bank of Kenya, 2012). Banks should make strategic sourcing decisions that will impact on their buy or make priorities Barney (1991). A bank will therefore in-source an activity if it represents a sustainable source of competitive advantage or when the fundamental resources and capabilities are valuable, rare, non-imitable and not easily substitutable. Activities with high asset specificity, high uncertainty and are produced frequently will be made in-house since these factors lead to increase in administration costs (Arnold, 2000).

Depletion of the natural resources without any hope of replenishment, calls for stringent measures to be taken by business organizations to embrace sustainability in order to meet the needs of both the present and future generations. This calls for organizations to adopt the Triple Bottom Line concept in making various strategic decisions that touch on their operations. Elkington (1994) asserts that business organizations are under intense pressure from all spheres to ensure that they practice sustainability in their strategic decision making. Banks being part of the business community too are under this same pressure to ensure sustainability in their supply chains. According to Carter and Rogers (2008), TBL is the pillar of sustainability in the supply chain. When organizations adopt the environmental, social and economic aspects of TBL into their supply chains, they are able to achieve sustainability.

A number of studies have been conducted in supply chain sustainability. Cocris and Nichitean (2010) conducted a study on corporate social responsibility and sustainability in Romanian commercial banks. The study focused on the local banking industry in Romania in order to establish various social and sustainability practices. The study concluded that corporate governance and corporate social responsibility are strongly correlated, both being based on notions such as ethical behavior, sustainable banking and others. According to a study carried out by the United Nations Global Compact (2011) sustainability is said to be a very important priority among Chief executive officers (CEOs) of banks around the world. The study found that while environmental, social and governance challenges continue to grow and CEOs wrestle with competing priorities, sustainable business practices and products are opening up new markets and sources of demand, driving new business models and sources of innovation and altering industry cost structures.

Pulliman et al. (2009) also conducted a study on social versus environmental sustainability practices and performance outcomes. The study featured food and beverage producers in U.S. North Pacific region. The study established that food industry managers perceive both direct and mediated impacts of sustainability programs on performance. UNEP (2008) Unchaining Value Innovative approaches to sustainable supply focusing on several case studies including Unilever in Kenya. The study concluded that successful supply chain sustainability initiatives can lay essential ground for developing brand-enhancing partnerships that will help develop customer loyalty. The concept of TBL first introduced by Elkington (1994) has attracted several studies including the ones mentioned above. This concept is becoming a competitive tool as green consumerism dawns on organizations. It is however worth noting that most of the studies on sustainable supply chains have given more emphasis to the production industry and specific aspects of TBL thus leaving the service industry with limited research activity. The role of TBL in making strategic sourcing decisions in the banking industry in Kenya is among the areas that have not been researched on. This leaves a gap that needs to be addressed. This study therefore focused on TBL and strategic sourcing decisions among commercial banks in Kenya. The study sought answers to the following two questions: (i) To what extent have commercial banks in Kenya adopted TBL in their strategic sourcing decisions? (ii) What is the relationship between TBL and strategic sourcing decisions among commercial banks in Kenya?

2.0 Literature Review

2. 1The Triple Bottom Line

As mentioned earlier in this study, The Triple Bottom Line (TBL) is a concept that was coined by John Elkington in 1998. TBL focuses on three dimensions of an organization's operations. The first dimension is the economic or financial, the second is social and the last is environmental (Fauzi et al., 2010). TBL is therefore used to refer to sustainable corporate performance in organizations. The three dimensions of sustainability started to gain prominence towards the end of the 20th century as a form of reaction towards the existing conflict between the environment and development. The reason for this prominence is the conceptualization of concern for the environment as a form of inter-generational justice which in reality means proving future generations a chance to equitable access to the world's resources. Organizations were diverted from focusing their development on the present generation but also on the future generations.

Mitchell et al. (2007) assert that TBL is progressively more being used by firms to report on how they are responding to sustainability in terms of environmental, social and economic performance. The TBL enables organizations to monitor their actions through the development of sustainable objectives that are matched with each indicator. Mitchell et al. (2007) further state that for organizations to continue to function in the long term, they need to take actions that can lead to sustainable management of natural and human resources. The actions should also be able to enhance the wellbeing of the society and economy at large. TBL is a very important reporting devise that can be used to measure sustainability in an organization. Elkington (1998) asserts that measurement is the most significant key to the management of organizational progress. He indicates that anything that cannot be measured may be difficult to manage. Elkington is optimistic that sustainability can be measured against the triple bottom line but indicates that there are two challenges that must be addressed if this has to succeed. The first challenge is difficulty associated with accounting for the social dimension. The second challenge is developing an approach for measuring sustainability in an integrated way across the triple bottom line.

2.2Economic Dimension

The proponents of the economic dimension assert that those in the management of an organization have a very significant responsibility of ensuring that the organization achieves good financial performance since financial performance is a major area of concern to the stakeholders of the organization. Wadock and Graves (1997) assert that when the financial performance of an organization improves, it provides room for enhancing the social performance of the organization through creation of opportunities. In measuring the financial performance of an organization the market-based approach, accounting-based approach and perceptual-based approach are applicable. According to Pava and Krausz (2002), the market-based approach derives the market value of a company from the prices of its stocks traded. This approach is based on the assumption that the main and significant stakeholders of any company are its shareholders. The accounting-based approach on the other hand focuses on the efficiency and effectiveness of a company as well as optimal deployment of the company assets.

Pava and Krausz (2002) further indicate that some specific measures are significant in fulfilling the accounting based approach of measuring financial performance. These measures include: return on assets (ROA) and return on equity (ROE). According to Pava and Krausz (2002), the measures that represent financial performance of a company can be classified into three main groups: The first group includes ROA and ROE; the second is those measures dealing with absolute profitability while the last multiple accounting-based measures. The perceptual method relies on subjective judgments provided by respondents.

2.3 Social Dimension

There are multiple definitions that have been fronted by various writers on social responsibility of an organization. Social responsibility of an organization is the overall relationship of the corporation with all of its stakeholders. The stakeholders of an organization include customers, employees, communities, owners or investors, government, suppliers and competitors. The important issues to consider in social responsibility include investing in community outreach programmes, good employee relations, creating and maintaining of employment, environmental stewardship and financial performance (Khoury et al., 1999).

The social aspect of TBL deals with how organizations need to be socially responsible in their operations. Welford and Frost (2006) assert that organizations must be socially responsible on a wide range of issues. Dahlsrud (2006) argues that globalization has transformed the way businesses operate. These transformations are taking place rapidly thus giving rise to new stakeholders and different national legislations that are putting new expectations on business and altering how the TBL should be optimally balanced in decision making. In this context therefore, community social responsibility (CSR) management tools are needed in developing and implementing a successful business strategy.

Corporate Social Responsibility is becoming an important public relation tool of global corporations. They use this tool to persuade customers to keep buying (Milovanović et al., 2009). The advent of globalization has pushed most organizations to adopt CSR programmes since they already understand the benefits of the same. Most corporations around the globe are now undertaking CSR programmes because they are aware that everyone is judging them. Those who invest in the companies, those who buy from them, those who work for them or the neighboring community will judge the company. Corporations need to be careful of their moral actions such as shunning child labour, treating their employees well and relating well with their suppliers.

2.4 Environmental Dimension

Partner and Howie (2007) assert that corporate environmentalism also referred to as or green management emerged in towards the end of the 20th century and became popular internationally in the beginning of the 21st century. Green management is now becoming a major topic of discussion in most organizations of this century. Elkington (1994) indicates that it is the responsibility of business leaders to actively get involved in defining and managing the process of environmental communications. He further warns that if businesses leaders fail to do this, their firms will be at risk (both now and future) of experiencing deterioration in business value, having their positions as accountable corporate citizens questioned, waning away of competitive advantage as customers turn to other companies that embrace corporate environmental responsibility.

The need for environmental responsibility has been accelerated by pressure from various stakeholders such as green consumerism, regulatory agencies and non-governmental organizations. Other than this pressure, green management is considered an important tool to an organization. Researchers such as Ambec and Lanoie (2008); Hart (1995); Porter and Van der Linde (1995) argue that corporate environmentalism is a very important weapon of achieving competitiveness.

2.5 Strategic Sourcing

The modern business environment is competitive and fast moving. This type of environment requires organizations to align their major projects with their corporate strategies in order to be able to remain competitive. Sourcing is one of the areas in an organization that have the potential of delivering significant results and benefits if it is given a strategic approach. Strategic sourcing therefore goes beyond outsourcing non-core functions of an organization. It also connects the company's operational base to its business objectives (Partner and Howie, 2007). Partner and Howie (2007) further argue that a well-designed strategic sourcing initiative must address three significant issues: the effectiveness and efficiency of a firm's current capabilities; the incremental opportunities that are available to the firm and the road map to be followed to enable the firm move forward. Clemmons and Hitt (1997) assert that it is important for an organization to balance between insourcing and outsourcing when making strategic sourcing decisions. In deciding what to outsource or not to, Clemmons and Hitt (1997) further suggest that non-core competencies of a firm can be outsourced because of three important reasons: Economies of scale, scope and specialization. This implies that non-core competencies can be cheaply outsourced from firms that have specialization in them.

Partner and Howie (2007) indicate that strategic sourcing can be associated with two advantages to the organization. The first advantage that that is associated with strategic sourcing is the shifting of emphasis of the firm from short-term cost-cutting and process efficiency to a focus on the strategic change authoritative and long-term value creation of the firm as a whole. The second advantage involves creating an opportunity to identify the optimum service framework across the company. This assists the organization to achieve economies of scale and sustainable cost savings. It is however important to note that even the best of strategies come with challenges. Strategic sourcing has its own challenges too. When strategic sourcing involves outsourcing of services, the outsourcing firm must be prepared for some unusual occurrences. Clemmons and Hitt (1997) argue that strategic sourcing agreements may sometimes enable one party to have access to information that is critically important to the success of the other. In case of misuse of such information then considerable damage may take place. The outsourced party may also underperform the tasks thus leading to loss of customer loyalty.

2.6 Triple Bottom Line and Strategic Sourcing Decisions

The relationship that exists between TBL and strategic sourcing can be termed as sustainability in supply chain management. The application of Elkington's TBL in supply chain is meant to ensure that organizations operate sustainable supply chains Carter and Rogers (2008). The argument perpetuated by carter and Rogers is that the aim of TBL is not to suggest that firms should identify and engage in social and environmental activities not likely to harm economic performance but instead it guides managers to identify activities which improve economic performance and dictate the avoidance of social and environmental activities that lie outside the intersection. Carter and Rogers further define SSCM as "the strategic, transparent integration and achievement of an organization's social, environmental, and economic goals in the systemic coordination of key inter-organizational business processes for improving the long-term economic performance of the individual company and its supply chains". SSCM requires a broadened approach of SCM with an emphasis on economic, environmental, and social aspects of business practices and theory (Svensson, 2007).

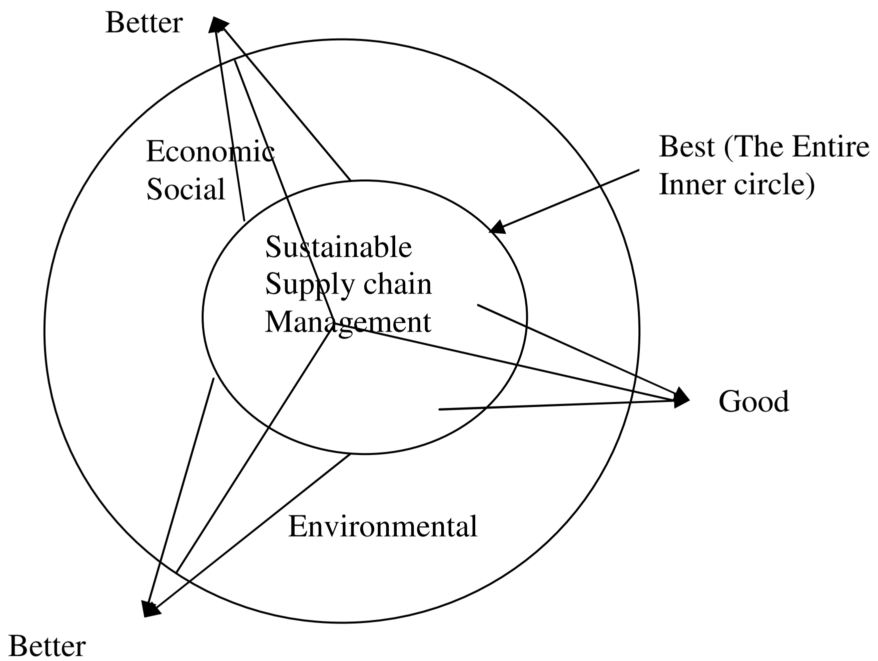
Carter and Rogers, (2008) go a step further and mention the supply chain activities that they believe fall within the triple bottom line. These activities include: "cost savings associated with reduced packaging and more effective design for reuse and recycling; lower health and safety costs, as well as reduced turnover and recruitment costs due to safer warehousing and transport and improved working conditions; reduced labor costs in the form of higher levels of motivation and productivity and less absenteeism resulting from improved working conditions; lower costs, shorter lead-times, improved product quality, and lower disposal costs resulting from the implementation of ISO 14000 standards and the use of design for disassembly and reuse; and an enhanced organizational reputation, which can make a firm more attractive to both customers and suppliers" (Carter and Rogers, 2008).

Morali and Searcy (n.d.) also indicate that sustainable supply chain practices, induced by environmental and social concerns, lead to various advantages to the organization. Some of the advantages include cost savings due to reduced health and safety costs; reduced mitigation related costs; increased operational efficiencies; revenue generation through as a result of good organizational reputation; increased quality; enhanced competitive advantage and general attractiveness to customers, employees, and suppliers.Sustainable supply chain management involves varying the concept of supply chain management to that of sustainable supply chain management Tieney (2002). This is not a very easy task hence comes with many challenges to the original concept which was built on efficiency, information sharing, and joint planning. Sustainable supply chain mzanagement is a concept that requires organizations to make money but take into consideration depletion of resources. The fact that it come with some challenges does not make it optional. Carter and Rogers (2008) suggest that engaging in sustainable supply chain management is not optional but inevitability. The reason for this is that SSCM addresses the long term enhancement of an organization's economic bottom line and assists managers to plan not just to survive in one or two years but rather to thrive for a longer duration.

Organizations practicing SSCM value their suppliers' environmental and social performance beyond basic compliance. Companies are now implementing supplier scorecards to track sustainability performance throughout their supply chain, in terms of energy use, waste, and raw materials, as well as labour and community indicators. This is also recommended for other industries (BSR, 2011). Organisations are also be required to assist their suppliers to comply with environmental requirements.

Morali and Searcy (n.d.) argue that risk management, transparency, culture, and strategy are the key success factors to successful implementation of SSCM practices. This is only achievable by simultaneously balancing the three domains of sustainability: economic, environmental, and social while maintaining a long-term focus Muller et al., (2009). The implementation of SSCM is however without challenges. The most common identified challenges of SSCM implementation include: lack of understanding of the complicated relationship between economic, environmental and social activities and their effect on the economic bottom line; resource commitments; management and monitoring of supply chain risks; supply chain performance measurement; transparency of information and knowledge; aligning the firm's corporate strategy with SSCM initiatives; and rigid corporate culture (Seuring and Müller, 2008b).

2.7 Conceptual framework



Source: Adapted from Carter and Rogers (2008)

The framework is based on the argument fronted by Carter and Easton (2011). The framework has borrowed a lot from the sustainable supply chain framework by Carter and Rogers (2008). For an organization to achieve a sustainable supply chain there is need to identify those activities from the three dimensions which can be able to bring about sustainability. The smaller inner circle represents sustainable supply chain management and it includes all the activities that can lead to a sustainable chain such as: waste reduction, sustainable products/services, and profitability into the future, stock value and balance sheet intangible assets under economic dimension. For social: community engagement, employee safety and wellbeing, governance, poverty alleviation, increased healthcare, human rights. For environmental: pollution prevention, waste management, raw materials, carbon foot print and disaster prevention. A combination of the social and environmental dimensions of TBL produces the lowest level of sustainability in the supply chain. This has been referred to as "good". When the economic dimension of TBL is combined with either social or environmental dimension; the level of sustainability in the supply chain can only be termed as "better". The combination that can provide best results in sustainable supply chain is therefore a combination of the activities of the three dimensions within the inner circle of the framework.

3. 0 Findings

3.1 Extent of TBL Adoption among Commercial Banks in Kenya

The study found out that commercial banks in Kenya have adopted the economic dimension of TBL in various levels of their strategic sourcing decisions. For instance 30 out of the 39 banks in the study were found to source for economically viable products and services. Among the economic aspects that commercial banks considered when making strategic sourcing decisions were cost saving implications. Commercial banks indicated that their sourcing decisions usually consider cost saving advantages that the banks will gain when making in-sourcing or out-sourcing decisions. The banks also take into account the fact that all the sourcing decisions made should be able to maximize shareholder wealth.

The other economic aspects that were found to be important in making strategic sourcing decisions among commercial banks in Kenya are return on equity and return on assets. It was established that the nature of strategic sourcing decisions made by commercial banks must be able to take into account their ability to enhance both return on the equity and assets of the bank as supported by 53.8% of the banks. Profit maximization was also found to play a very significant role in making strategic sourcing decisions. 62.9% of the respondents indicated that supply chains need to operate profitably hence sourcing decisions made by banks must maximize the profitability of the supply chain and the entire organization. In general terms, most of the commercial banks were found to take into account the economic implications of the strategic sourcing decisions they make.

Commercial banks in Kenya were also found to have adopted the social dimension of TBL to varying extent in various activities related to sourcing. For instance 54% of the banks indicated that they shun from any supplier who utilizes child labour in the production of various products and services. They confirmed that any supply who uses child labour is removed from the panel of authorized suppliers. The use of child labour is not considered a good corporate social responsibility practice. It was also established 61.5% of the commercial banks maintain good relations with their suppliers. This is one way of ensuring that they have constant supply of sourced products and services. The study also found out that 65% of the commercial banks take into consideration the immediate community when making their strategic sourcing decisions by ensuring that they are tailored towards uplifting the immediate community where the banks operate.

When making strategic sourcing decisions 62% of the banks were found to take into account the safety of their employees who are the end users in most cases. It emerged from the study that banks source for products that will not harm the employees when using them. This is an indication of good corporate social responsibility towards employees of banking institutions. Products sourced by commercial banks were found to be those able to meet the needs of customers. 61.5% of the commercial banks confirmed that customers are very central to their existence. Any sourcing decisions made must therefore be able to meet the needs of commercial banks' customers. It was also established that 68% of the commercial banks factor into their strategic sourcing decisions the rights of various stakeholders. They ensure that rights of each and every stakeholder are not violated. Most banks also indicated that they consider the social dimension of TBL critical in making the sourcing decisions.

On the environmental dimension, it was established that commercial banks in Kenya consider how friendly to the environment, the sourced products are. It was clear that 92.4% of them confirmed that they source for products that are friendly to the environment. It was found out that there are very many ways through which commercial banks have adopted the environmental dimension in making strategic sourcing decisions. For instance it was established that 94% of the commercial banks require that their suppliers comply with the existing environmental regulations. The same suppliers are also required to provide regular environmental audits to the banks. This is one of the ways most banks ensure that their suppliers are environmental friendly.

It is however interesting to note that 55.9% of the banks were not certain whether the products they sourced were from suppliers with low carbon emissions. This is one of the areas most commercial banks showed little concern.

It was though clear that 61.6% of the banks train their suppliers on issues concerning environmental conservation and they review their panel of suppliers regularly to ensure that they shun from those suppliers who do not comply with environmental regulations. Most of the banks also confirmed that the environmental dimension is considered as very critical in making strategic sourcing decisions.

3.2 Relationship between TBL and Strategic Sourcing Decisions

The regression results obtained from the study indicate that there exists a significant and strong relationship between strategic sourcing decisions among commercial banks in Kenya and TBL. It was evident that TBL EXPLAINS 53.8% of the variance in strategic sourcing decisions made by commercial banks. However, it is clear that, strategic sourcing decisions may not be explained by TBL alone since 46.2% of the variance is explained by other factors not captured in the in the TBL concept.

3.3 Conclusions

This study concludes that most of the commercial banks in Kenya have adopted to a large extent the dimensions of TBL in making their strategic sourcing decisions. The banks take into account economic aspects such as sourcing for economically viable products; making strategic sourcing decisions that can maximize supply chain profitability; enhancing return on assets and equity in their sourcing decisions as well as shareholder wealth maximization.

Banks were also found to shun suppliers who utilize child labour in their production. Their strategic sourcing decisions take into account the safety of employees as end users of products. The rights of each and every stakeholder are reflected in their sourcing decisions. Banks too make strategic sourcing decisions that are aimed at uplifting the immediate community in which they operate like sourcing for human resources and other products from the immediate community.

The banks also take into account the environment when making their sourcing decisions. Most of the banks confirmed that their suppliers must conform to the environmental rules and regulations. They are also required to provide environmental audit reports to the banks. However most banks seem not to be aware of whether or not they source products from suppliers with low carbon emission. A larger percentage of the strategic sourcing decisions made by the commercial banks in Kenya meet the TBL dimensions.

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