Corporate Social Responsibility, Client Satisfaction and Competitive advantage in retail banking institutions in Kenya.

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ABSTRACT

Corporate Social Responsibility (CSR) plays a very important role in organizational development. Studies have shown that institutions that embrace this concept reap many benefits including customer loyalty, positive attitudes towards brands, client trust, positive publicity and better financial performance. Increased spending on CSR initiatives is expected to increase customer satisfaction and build competitive advantage. The purpose of this paper is to highlight the role of CSR initiatives in building customer satisfaction and competitive advantage. It specifically focuses on customer-centric, corporate philanthropy and employee-centered activities of CSR and their contribution to customer satisfaction and competitive advantage. The paper draws largely from various academic literature by examining the early reflections of various scholars on CSR and linking *them to more contemporary theoretical and empirical reviews. We recommend that retail banking institutions in Kenya should be involved more in CSR initiatives so as to gain customer satisfaction and build competitive advantage in the ever changing business environment.*

KEY WORDS: Competitive Advantage, Corporate Social Responsibility, Customer Satisfaction.

1. Introduction

Businesses in Kenya today are facing a myriad of challenges that have threatened their competitive positions.

Meeting customer satisfaction for the 21st century organization is quite a big task. Consumer needs keep on changing everyday thereby making it very hard for organizations to determine how best to please the consumer in order to gain a competitive edge. The performance of organizations today can no longer be measured on reported profits alone (Smith, 2008). The role of business in society has continually changed over time in that the 21st century organization not only aims at profitability through efficient conduct of business but also its contributions to the social well being of its social constituents. This social component which consists primarily of the external stakeholders demand that their interests be taken care of by the internal stakeholders that includes the top management board of directors, shareholders and employees. In order to increase organizational efficiency and effectiveness, organizations must continually reorganize themselves in the face of these challenges in order to achieve their objectives. They must be responsive to the challenges they face in the macro and micro-environments.

In order for the 21st century organizations to achieve a competitive edge over their rivals, they may have to embrace Corporate Social Responsibility (CSR) programmes. Corporate Social Responsibility is the ability of organizations to relate their operations and policies to the wider society in ways that are mutually beneficial to them and their social constituents. These actions are taken for reasons that are partially beyond the organization’s direct economic and legal obligations (Carrol, 1979; Matten and Crane, 2005). These are actions that are sometimes regarded as purely philanthropic and voluntary that are aimed at benefiting the organization’s social constituents. Organizations that embrace this concept can reap long term benefits.

1.1 **Corporate Social Responsibility**

According to Decker (2004), the concept of CSR is somehow vague because of its multi-dimensional nature that has led it to mean different things to different people. However, in recent years there has been a general agreement among scholars who have conceptualized it to include elements like organizational values and philosophies, societal and environmental concerns and how businesses and society relate.

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

One of the most widely accepted and a used definition of CSR is by Carrol (1979, 1991) who defines it as "the social responsibility of businesses which encompasses the economic, legal, ethical and discretionary expectations that society has of organizations." Carrol (1991) also conceptualized CSR in one of the early models as represented by what is commonly referred to as Carrols Pyramid (Fig. 1).

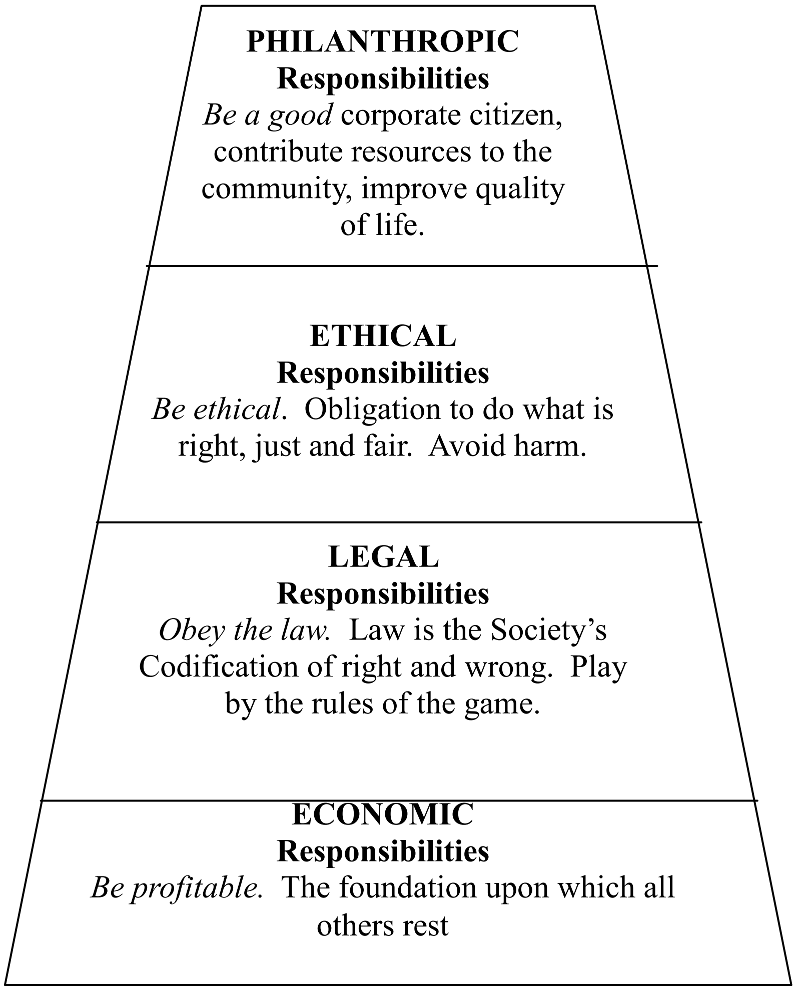

Figure 1*: Carrol's Pyramid of Corporate Social Responsibility*
Source: Carrol (1991, p. 42)

Later models like that of Schwarz and Carrol (2003) modified the earlier model by removing the philanthropic category arguing that it can not be classified as a "social responsibility" because it is purely discretionary. This revision of the earlier model is in line with contemporary views of CSR as being part of the whole business model as opposed to being imposed on the organization (Meehan et al, 2006).

According to Shahin and Zairi (2007), organizations have been involved in CSR programmes for several years. CSR programmes where preceded by what social and economic theorists referred to as Corporate Social Contract which stipulated what society expected of business and vice versa (Bowie, 1983). CSR involves organizational paradigm shift from traditional profit maximization objective under shareholder-value creation to stakeholder-management approaches whereby the impacts of their activities on the social constituents are taken into account (Stubbs and Cocklin, 2007). The stakeholder's (Social Contract) theory posits that organizations have social responsibilities to all their stakeholders because these stakeholders have allowed these organizations to exist and conduct their businesses in a kind of social contract (O'Brien, 1996). Such actions in society are aimed at improving the conditions of the consumers and employees without degenerating the physical environment or subjecting the employees to inhuman working conditions.

The stakeholders of an organization are those that have diverse interests in the organization that can be of an economic or environmental nature, those involved in implementing the mission of the organization, those who make key decisions aimed at achieving organizational objectives like those related to allocation of resources and control and those who are impacted in one way or another by the organization's activities (Zappi, 2007).

According to researchers, organizations that have incorporated higher levels of CSR in their programmes usually report higher profits (Harrison and Freeman, 1999; Barret, 1998). This means that the profit objective can still be achieved by being ethical in all operations, by observing all rules and regulations and by being socially responsive to stakeholders.

1.2 CSR in the banking industry

Even though CSR initiatives are applicable to virtually all organizations, banks are more sensitive to these programmes as they have to strive to satisfy a multiplicity of stakeholders. These include maximizing profit to shareholders who are the true owners of the business, maintaining optimal liquidity for depositors, complying with regulator's demands, satisfying the deficit sector demands for credits, contributing to the development of the economy as well as satisfying the needs of the immediate community in which they operate (Nwankwo, 1991).

Several factors have stiffened the competition among the various players in the banking industry leading the banks to look for more innovative ways of satisfying their customers while at the same time making profit. Some of these factors include the concept of globalization which has taken competition beyond the national boundaries, advancement of technology, deregulation of financial services and privatization of banks that were initially public (Achua, 2008). The major stakeholders, especially the more informed ones are also demanding greater social and environmental performance by banks because they have come to understand and appreciate the fact that businesses can ever succeed without public trust and confidence.

1.3 CSR and Competitive Advantage of Retail Banking Institutions

Competitive advantage is gained when organizations perform better than their competitors in the same industry. In order for organizations to outwit competition and succeed in the market place, they must possess some kind of advantages compared to their rivals. According to Porter (1985), an organization that is able to consistently report above average profit in the industry has a competitive advantage. Competitive advantage involves choosing a favorable position within the industry and maintaining it in the long-run relative to competition (Porter, 1990).

There are several sources of competitive advantage (Reed and DeFillippi, 1990). These sources can be as many as there are activities in the organization. According to Jones (2000), there are two broad sources of competitive advantage; the “hard” factors that include physical facilities, production schedules, type of technology employed e.t.c. and the “soft” factors that include the organizations culture, knowledge available within the organization, worker and manager experience, etc. According to Meehan et al (2006) CSR can be integrated in the organization’s strategic management process and be a source of competitive advantage. It can be a key ingredient in the overall organizational success rather than a means of draining its resources. Such actions can lead to a change in consumer attitudes towards the organizations and the products and services that they produce and market. Negative consumer perception may lead to consumers boycotting some brands. Businesses are giving their CSR activities a lot of publicity through favorable media coverage in order to achieve competitiveness (Luo and Bhattacharya, 2006). The stakes are higher in financial institutions because the clients normally have a higher involvement with those institutions (Matule-Vallejo et al, 2011).

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

1.4 The need for CSR in Kenyan Retail Banking Institutions

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

The involvement of banks in CSR programmes in the area of education and training, health, towards a clean and sustainable environmental and improving the livelihoods of vulnerable groups in society will also contribute to the realization for the social pillar of vision 2030. Retail banking institutions have over the years spent large sums of money on CSR programmes. Despite their heavy investments in CSR initiatives, the banks have continued to experience increased customer dissatisfaction that has reduced their competitiveness. According to a banking survey conducted between 19th and 20th of July, 2012, by Infotract in partnership with Consumer Federation of Kenya, 39 percent of respondents expressed dissatisfaction with commercial banks citing poor services and high interest rates which do not give much thought to the interest of the consumers. If banks get more involved in CSR initiatives, they are likely to achieve higher client satisfaction and build competitive advantage.

2 LITERATURE REVIEW

2.1 Theoretical Review

Many researchers have shown how CSR initiatives can reap benefits for a company. Companies that have engaged in CSR all over the world have elicited favorable responses from their key stakeholders. These CSR activities have also acted as a source of competitive advantage.

According to Sen and Bhattacharya (2001), CSR initiatives can lead to positive perceptions of the consumers about the organization and the product or service produced and marketed by the organization. Positive consumer perceptions have been shown to lead to customer loyalty and customer satisfaction. According to Oloko (2012), customer loyalty and satisfaction are key predictors of the overall performance of banking institutions in Kenya. Companies with CSR policies have been shown to attract high quality employees (Greening and Turban, 2000; Turban and Greening, 1997). Having high quality employees can be a source of competitive advantage in an organization. Investors are attracted to make investments in public companies with CSR Policies (Domini, 1992; Sen et al, 2006). Such investments can ensure long-term survival of the organization and also act as a source of competitive advantage.

2.2 **Past Studies**

2.2.1 Customer-Oriented Corporate Social Responsibility initiatives and competitive advantage.

In order for service organizations to be successful in the marketplace, they must be able to maintain a good and long-term relationship between them and their clients as this will lead to repeat purchases and eventual customer commitments (Paul et al, 2008). Such commitment is only possible when customers are satisfied with the services offered. Customer loyalty is a key factor in any business success (Kotler and Armstrong, 2008; Lewis and Soureli, 2006). Therefore it is the responsibility of organizations to provide equality products and services in order for them to be trusted by the consumers.

There is varied opinion in academic literature on the relationship between customer satisfaction and customer loyalty. Some researchers have concluded that the relationship is non-linear (Auh and Johnson, 1996). There are some who have concluded that the relationship is asymmetrical (Anderson and Mittal, 2000). However, some have shown a direct link (Grace and O'Cass, 2004) by concluding that more satisfied customers are likely to make a repeat purchase that leads to the generation of more favorable evaluations and attitudes and ultimate consumer loyalty. This can be a source of competitive advantage.

One of the reasons why clients switch banks is dissatisfaction (Manrai and Manrai, 2007) which is caused mainly by unfavorable tariffs (Colgate and Hedge, 2001; Santonen, 2007). According to Richardson and Robinson (1986), customers close their accounts in banks because of dissatisfaction caused by among other reasons poor service as perceived by the customers, employees who are rude or unhelpful to the clients and the impersonal nature of the banking institutions. The most important factors that determine bank customer retention and acquisition are quality service and customer satisfaction (Jamal, 2004; Armstrong and Seng, 2000).

According to Mylonakis (2009), banks in the 21st century banking environment must continuously strive to improve on customer perceptions through the marketing concept and through closer interactions with the customers in order to achieve customer loyalty and gain a competitive advantage. Taking measures to build customer loyalty and restore confidence is critical to the success of the financial institutions (Matute-Vallejo et al, 2011).

According to Brown and Dacin (1997), CSR record provides a general evaluation criterion for customer satisfaction. CSR influences positive client evaluation in three ways. Firstly, according to Daub and Ergenzinger (2005), social programmes make consumers feel that they belong to a community or social group when consuming a service. Secondly, CSR strengthens a sense of positive feeling towards the organization thereby creating a convection between the client and the organization (Sen and Bhattacharya, 2001) and thirdly, clients view such organizations as providing more value to them when compared to the non-socially responsive organizations (Mohr and Web, 2005).

Banking institutions should endeavor to create positive evaluations in the mind of a customer through aligning their corporate image with their actions on the societies in which they operate (Kay, 2006) as the perceived customer positive image evaluations about a service organization depends on the organization's configuration of its social programmes and strategies.

2.2.2 Corporate Philanthropy and competitive advantage.

According to Ricks (2005), Corporate Philanthropy is "a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform". This definition is in line with Carrol's (1979) fourth level of CSR which identifies philanthropic activities of organizations through programmes like contributions to the arts, education or community.

Corporate philanthropy falls within the organization's ethical and social commitments. These are values that organizations subscribe to comprising of ethical and social standards as evidenced in their mission, organizational objectives and organizational culture (Meeham et al, 2006).

According to Porter and Kramer (2002), "Strategic Philanthropy" involves organizations' giving charitable contributions to society with an aim of generating organizational good-will, good publicity and also boosting employee morale. All these can be sources of competitive advantage. One of the earliest forms of "strategic philanthropy" is "cause-related marketing" whereby organizations concentrate on a single cause or a single organization over time. Such practice can improve the reputation of the organization as it links itself with the qualities of an admired corporate partner (Porter and Kramer, 2002).

Another form of corporate philanthropy involves giving time and expertise to local non-profit organizations through a form of partnership by way of Employee Volunteer Programme (EVP) (Vaidyanathan, 2008). Through this programme, organizations sponsor their employees to work with these organizations towards some cause.

Employee Volunteering Programme can lead to several benefits including reaping returns from the market due to the organization's commitment to the cause, meeting social and economic objectives simultaneously and also attracting and maintaining high quality employees (Vaidyanathan, 2008). These programmes can also add value to the organization by improving the reputation and credibility of the organization thereby enhancing the organization's public image.

According to Clemes et al (2010), one of the reasons why customers switch banks in a competitive banking environment is the reputation created by a bank among its customers. When a banking institution has a good reputation, it creates a positive image among its customers and this can lead to corporate success. Bank managers should therefore use a relationship marketing approach in order to enhance trust between the banks and their clients and also build a good reputation. CSR can play a big role in building trust, reputation and hence increase customer retention and acquisition. What customers talk about among themselves about an organization is important to business success (Clemes et al, 2010). It is important for the banking institutions to understand how their social programmes are likely to influence consumer perceptions about them for their corporate philanthropy activities to have a meaningful impact on their positive reputation (Lee et al, 2012).

According to Porter and Kramer (2002), organizations can use corporate philanthropy efforts to increase their competitive advantage as corporate philanthropy aligns the social goals of the organization with economic goals of profitability thereby creating long-term business success.

2.2.3 Employee-Centered Corporate Social Responsibility and competitive advantage.

It does not only take the provision of quality products and services for organizations to gain public support. The type of employees an organization has is also a major factor. Therefore it is prudent for organizations to develop responsible and ethical staff (Yeung, 2011).

According to Brammer and Millington (2007), CSR policies can lead employers to form favorable perceptions of the organization. Such policies influences employee commitment to the organization as they make them feel proud to be associated with the good that the organization does to its constituents and may make them more eager to share the "good deed" that the organization does with others outside the organization (Stawiski et al, 2010). Tsai et al (2006) say that employees should be encouraged to learn new and innovative ways of relating with customers as this will be beneficial to both the customers and the organization due to the positive feedback gained from the consumers. The end result will be a fulfillment of the organization's responsibilities towards society.

The staff has to be committed in their work in order to establish an organizational culture devoted to provision of quality service to consumers (Michalos, 2006). This gains confidence from the consumers leading to customer satisfaction hence becoming a source of competitive advantage.

Harrison (2000) points out that individual performance is influenced by "knowledge, skill and the environment". He says that poor performance is caused by several factors among them poor working conditions, lack of information or skills, inadequate working tools and poor motivation and/or incentives.

Employees can be actively involved in CSR activities not only on the responsible organizational labour practices like health and safety, fair remuneration, training, discrimination, work/life balance, e.t.c. but also as a group that can commit personal resources to make contributions to CSR activities (Haski-Leventhal, 2012). They can commit their personal resources through participating in voluntary fundraising to assist particular causes within the community or make direct contributions through pay-roll deductions. These contributions can then be channeled to a particular cause. They can also volunteer their time and expertise in local non-profit programmes through employee volunteering programmes. Such involvement by employees can lead to their moral satisfaction, organizational commitment and business success.

Employee-centered CSR can be looked at from the perspective of organizational justice theory (Cropanzano et al, 2001). Recent studies on organizational justice have dwelt on how employees perceive the treatment of both the self and others by the organizational stakeholders and also how the organization treats the external stakeholders. Rupp (2011) while deriving from organizational justice studies says that employees will "look in", "look around" and "look out" when forming perceptions about organizational justice. "Looking in" refers to how employees perceive the treatment of self by stakeholders, including the organization, the supervisor, co-workers, customers, e.t.c. "Looking around" refers to the interactions between the organization's members and how these interactional processes lead to collective justice perceptions. "Looking out" refers to how organizational employees perceive the treatment of others by the organization. They are formed when employees witness an organizational affiliate fall victim to injustice. This is often third-party in (justice) perceptions.

Positive perceptions formed by a "looking in" employee can boost organizational attractiveness, attract high quality potential employees, lead to employee organizational commitment, job satisfaction and improved employee performance (Booth et al, 2009). Positive perceptions formed by a "looking around" employee can lead to psychological feelings of belongingness (Rupp, 2011) and provide opportunities for more employee involvement in CSR activities like employee volunteerism and personal contributions to various causes (Aguinis, 2010). Such activities will tighten the bond between the employees and employers leading to overall organizational success.

Third-party justice ("looking out") can be viewed from the moral perspectives whereby organizations are expected to do the right things to their external stakeholders (Rupp, 2011). When employees perceive anything to the contrary, they are bound to react negatively hence affect the organization's performance in one way or another.

According to Palazzi and Starcher (2006), employee-centered CSR can take several forms. These include management creating a good working environment whereby employees are developed so as to realize their potential. Empowering employees especially the middle management and also establishing good communication channels throughout the organization are other forms. There should be a balance between work, family and leisure for employees to be more productive in the long-run. Continuing employee education and training, job security and profit sharing to enhance employee turnover can also be implemented.

The results of such actions include improved organizational performance through increased profits and productivity and higher quality of life in the workplace. They can also make the more skilled and committed employees to be retained in the organization. Studies also show that employee satisfaction can lead to customer satisfaction (Palazzi and Starcher, 2006).

3.0 Conclusion

The review of the literature above indicates that CSR programmes can predict organizational competitiveness and customer satisfaction in all types of organizations in general and retail banking institutions in particular. Retail banking institutions can build competitive advantage through involvement in the above reviewed CSR activities because they are influenced by all of them. This means that these activities can easily be crafted into the organization's overall strategy. However, managers should take into account various micro and macro-environmental factors before implementing them.

3.1 Implications for practice

We suggest that retail banking institutions in Kenya attempt to investigate as the CSR activities that have the greatest influence in building competitive advantage so as to invest more in them. According to Collado-Munoz and Utrero-Gonzalez (2011), CSR can contribute to better financial performance of these institutions.

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