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Corporate Social Responsibility and Competitiveness of Organizations: A Case of Commercial Banks in Kenya

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Abstract:
Currently, the banking industry is experiencing an exponentially increasing competition among other challenges like government regulations. Therefore, to curb these challenges and be sustainable in the fragile business environment, banks have shifted their focus towards appealing to the public in order to create a good corporate image through philanthropic practices, ethical practices, economic practices and community based practices. The main purpose of the paper is to investigate Customer Social Responsibility and competitiveness of commercial banks. Resource based view, stakeholders, and strategic leadership theories were adopted. It used descriptive research design. The target population was 9 commercial banks, a sample size of 51 bankers and 80 customers. The researcher used inferential statistics. The findings indicated that philanthropic, ethical, economic empowerment and community based practices positively affected the competitiveness of the commercial banks. The study concluded that the corporate social responsibility significantly influence competitive advantage. Philanthropic, ethical, economical and community based practices were significant for competitiveness of the commercial banks in Kenya. The study then recommended that the government and the commercial banks should then practice corporate social responsibility. It creates customer relation, increases market share improves relationship with the suppliers. Further studies should be conducted on the areas of corporate social responsibility on the economics of Kenya.

Keywords: *Strategic management, corporate social responsibility (CSR), descriptive design, Kericho, Kenya*

1. Introduction

Corporate social responsibility has become a common practice done by financial institutions in Kenya. It has grown popular as the newest management strategies where corporations develop projects and activities that has positive influence on society while continuing with their mandate. Corporate social responsibility as defines by Holme and Watts, (2000) is the continuous obligation where business behave in an ethically and provide to economic development by improving the standards of livelihood of the employees and their dependents as well as the society. Ethical decision in the corporate world is important to reduce the government involvement in the provision of services and economic development. Different reasons have been accorded for corporate to involve themselves in tasks that assist the society. Most of commercial institution provide community activities so as to identify themselves with the society. This legitimacy practice helps the organization attain sustainable profitability by gaining market share and wining many customers (Bowen, 2013).

The corporate sector has largely invested in social responsibility as an economic benefit to the organization. In larger society the corporate has a greater opportunity to use public resources to conduct other social related project with partnership of governmental and non-governmental agencies (Carroll, 1979). Carroll added that the rule and regulation made by agents like government, has negative influence to the profit maximization. It then affect stakeholders needs when such spending is high and threaten their profit objective. If a firms makes it the least it can do as part of law requirement then their objective does not capture marketing and customer retention. Eilbert and Parket (1973) tried to make provided a clear understanding of what social responsibility through the three expression of “good neighbor” tag. They provided two facet meaning. The first was doing things that does not threaten the neighbor and second is that business should provide answers to the problem facing the society like poverty, environmental conservation or transportation.

McWilliams, Siegel & Wright (2006) identified that there existed a gap from the studies in theoretical and empirical knowledge of corporate social responsibility. Some of misunderstood areas are the meaning, institutional difference, strategies, motivation and models used in corporate social responsibility. Also the association of corporate social responsibility to leadership, corporate culture, cost and need assessment. This makes it a new area where most of the organization should input more efforts on.

Corporate social responsibility is moral concept that an entity gives an obligation to an organization to conduct duties in way that it benefits the community. It a responsibility that every company has conduct so as to maintain a force of the economy and nature a good relationship between the organization and its environment. A balance is maintained with in the economic development, social welfare and material sense. According to Bowen (1953), it pertains not only to commercial organizations but also to everyone whose action impacts the society. Corporate social respondent activities are then represented by about four variables: ethical, philanthropic, economic and legal. This element contradicts with the corporate business agenda of profitability. These principles assumes that the corporate social responsibility is done towards is based on normal profit, adherence to laws, ethical responsibility and philanthropic. According to Carroll, (1991) corporate social responsibility interlinks the community and corporate world. It governs the relationship between difference entities like suppliers, investor, buyers, employees, society and other stakeholders of the organization.

Currently, the concept of competitiveness has developed to become a new paradigm in the economic development of business organizations, sub-sectors or countries. Competitiveness constitute the awareness of both the challenges and limitations posed by the dynamic global business environment, at the time when the effective business organizations' actions is constrained by financial limitations and thus faces significant challenges to compete in both the domestic and international markets. To overcome the challenges associated with competitions, business organizations, including financial institutions have been force to realign them and adopt strategies that are geared towards enabling them gain a competitive edge in the dynamic business environment.

Commercial Banks have taken keen interest in CSR in the last few years. This is evident from their annual reports and websites where they provide a statement on their CSR involvement. In most of their end of year financial reports, they dedicate pages highlighting their contributions to CSR. These institutions have engaged in activities that include education and leadership development, financial literacy and access, entrepreneurship, agriculture, Health, innovation, environmental sustainability, enterprise development, humanitarian intervention, business ethics, community development and corporate governance and workplace issues.

2. Literature Review

The theoretical and contextual framework were as discussed as follows;

2.1. Theoretical Framework

Corporate social responsibility and competitive was guided; resource based view, stakeholder's and strategic leadership strategies. These theories has based on resource distribution and strategies that assist the corporate to participate in the social responsibility activities.

Wernerfelt in the year 1984, introduced the resource-based-view of the firm (RBV) and the same was refined by Barney and Tyler (1991).This was borrowed on the Penrose (1959) research. This theory showed assumptions that organization contains numerous different resources and capabilities. This capabilities can be utilized for the growth of the organization to gain competitive advantage of their rivalry. Corporate social responsibility cab used as the capability to create competitive advantage over the other competitors in the same market. Resource based view is utilizable in the overall contribution to corporate responsibility and performance of the firms. Other related research include (McWilliams and Siegel, 200).

The stakeholder theory was advanced by Freeman in 1984 where he developed the theory basing on the 1938's Chester Barnard's 'inducement-contribution' concept. Corporate social responsibility influence the use of this theory. The manager's focus is to balance the corporate needs and ensure smooth running. This is by fulfilling the stakeholders (customer, supplier, employee and local community) need through the corporate social responsibility. The theory is applicable to the study because banks have seen the need to satisfy the stakeholders, including the community, buyers and suppliers by engaging in corporate social responsibility activities. The involvement in CSR is, meant to improve the competitiveness of commercial banks.

The strategic leadership theory indicates that the leadership as a whole in financial institutions can affect its engagement in corporate social responsibility. Leadership is defined as the ability of leaders to effectively apply their communication skills and put their expertise in order to enhance effective consultations at the various stages of making decisions in order to develop processes that will articulate and enhance their own values, missions, objectives, and visions clearly and not dictate them. According to Pearce (2008), this theory is about setting and analyzing agendas, issues, identifying challenges, and working on change that will make substantial improvement and not just managing changes. Waldman *et al* (2004), in his view of corporate social responsibility (CSR) applied strategic leadership theory and concluded that managing personnel who are higher intellectually do have more strategic CSR than those that do not have. This position has been upheld by the various authors who believe that some changes in leadership have positive impact and are likely to take up CSR and the managers of such institutions are more likely to implement CSR activities in a strategic manner. Therefore, philanthropic, ethical economic and community based practices are strategic tools for competitive advantage.

2.2. Corporate Social Responsibility and Competitiveness

Corporate social responsibility, as argued by some scholars, could have some influence on the performance of the organization at any given time. This implies that corporate social responsibility could in the long run enable an organization produce positive financial performance (Weber, 2008). Angelidis, et al. (2008) argued that the relationship between corporate social responsibility and financial performance shows that some area of corporate social responsibility is least understood. Other studies suggest that there exist a mild positive relationship between it. The claim has not been fully established nor understood based on the mechanism or other variables influencing the measure of corporate social responsibility (Jawahar & McLoughlin, 2001). However, they assert they relate good reputation in corporate social responsibility with the competitiveness of the organization which increase the profitability. This also applied for those who asset aren't ascertainable would have a profitability when they practice corporate social responsibility (Barney and Tyler, 1991).

In a case of corporate social responsibility Bowman and Haire (1975) pointed out that some stakeholders perceive corporate social responsibility (CSR) as a symbol of reputation and the company's reputation can be improved by actions to support the community resulting in positive influence on revenue and thus businesses can turn a social problem into long term economic opportunity and economic benefits, productive capacity, human competence, well-paid jobs and wealth.

2.2.1. Philanthropic Practices

Corporate social responsibility involves philanthropic practices that corporate entity does towards its immediate community. It involves activities such as donating funds to deserving institutions or individuals and the organization's stakeholders in a bid to improve their livelihood. As a result of the competitive business environment, several business organizations have devised strategies aiding their ability achieve a competitive edge in the market environment. One of the strategies that organizations involve in is philanthropic practices which are geared towards influencing the competitiveness of a firm and thus encompasses the values of a firm, good communication, mutual respect and well defined roles and responsibilities. The role of stakeholders in an organization is to ensure smooth operations of the organization and as a result their reactions, plans and view in regards to the organization's socioeconomic operations impacts much on the financial status of such organizations.

According to Michael, & Mark, (2012) philanthropy has increasingly been used as way of marketing and creating awareness about what the organization is all about and hence promotes the overall appearance, services, and output of the organization. Focus in the current business environment is on effective management of stakeholder relations. The same has been done by ensuring good use of public relations, corporate social responsibility and the organizational activity and as a result the organization has managed to achieve a competitive advantage over its competitors. The main objective of philanthropic practices which involves a firm's values, communication and respect is to ensure that a firm achieves a competitive edge Capra (1995). The relationship should impact positively on stakeholders meaning that they should be gaining from the relationship since lack of this will demotivate them making them ineffective in ensuring that the organization's objective and visions are attained.

2.2.2. Ethical Practices

Recently, with regard to the exponentially growing competition in the business environment, several researchers have indicated that the productivity output in an organization is as a result of the current trend in the leadership and has linked this to the issue of ethics and ethical practices in such organization. Transparency in terms of ethics is being worked on by every institution in accordance to the corporate policy as this simply presents the effect of decision making on the people and organization as a whole. Etuk (2009), shows the relationship between morality and ethics. He indicates that it concerns the desired and, good and accepted conduct by people.

Ethics as by Cole (2002), presents the accepted code of conduct that govern the association of people and the organizations. When an organization acts with ethics, they fulfill their social obligations to the society which goes beyond realizing the profits in order to achieve the objective but the obligations

2.2.3. Economic Practices on Firm's Competitiveness

Many firms have focused on economic practices to optimize customer interactions and organization's sustainability. Economic practices involve protecting an organizations capital base. This has been a widely accepted business principles and therefore organizations have recognized the importance of extending this notion to communities within their operations hence protecting the natural and human resources. Lee and Park, (2010) in reference to social obligation of financial institutions, corporations should be monitored by the state to ensure that the fundamental principles are in the interests of their owners, employees and customers, rather than society as a whole.

Kluge and Schomann (2008) observed in regards to economic practices of CSR shows that companies understand their interest through customer response and public opinion. Therefore, business organizations utilize their financial resource particularly to protect the interests of the community and therefore build a good corporate image that can attract and retain customers. In this regard, an organization involved in sustainable economic practices achieves a competitive advantage over its competitors.

2.2.4. Community Based Practices on Firm's Competitiveness

There has been great debate on whether business organizations should take part in social obligation of the society where they are operating. The idea by people in a particular school of thought stated that financial institutions, have obligations which are more than just making profits. According to Drucker (1988), community practices can be described as an organization's contribution to the establishment of businesses opportunities, training, education, contribute to small and medium scale business, community project and sustainable economy.

In Kenya, several commercial banks have actively begun to shift focus towards CSR. Among these banking institutions engaging in community based practices include, Co-operative bank, KCB bank, I&M bank and equity bank among others. According to the Co-operative bank report 2015, the bank has spent more than millions of shillings to pay school fees for the needy students in high school. In 2015, according to the report, Co-operative bank awarded 655 needy students with four-year scholarships for secondary education. Equity bank on the other hand, through its wings to fly program have finance over 2,000 secondary school learners. According the equity bank report (2015), wings to fly program is geared towards educating the needy students in the community. The program is a 9 billion kitty with the backing of other players including USAID, MasterCard Foundation, UKAID, and German Reconstruction Bank. The wings to fly program has so far sponsored over 10,000 students since it was established in 2010. The Kenya Commercial Bank has also not been left behind, the bank, according to the Kenya Commercial Bank Report (2014), sponsored 238 students who sat for Kenya Certificate of Primary Education from poor backgrounds.

3. Research Objective

The main purpose of this study was to provide examine the effect of the following factors of corporate social responsibility on competitiveness of organization:

- Philanthropic practices on competitiveness of commercial banks
- Ethical practices on competitiveness of commercial banks
- Economic practices on competitiveness of commercial banks
- Community based practices on competitiveness of commercial banks

4. Methodology

The methodology of the paper adopted descriptive survey where data were collected from 9 commercial banks within Kericho County out of 43 banks registered in Kenya. A sample of 80 customers and 51 customers base on Mugenda and Mugenda (2003) suggestion of 30% of population been sufficient for conducting a study from 170 employees. The questionnaire was disbursed physically to the financial institutions managers, and employees as well as to the customers. The sample for the pilot test was not featured when the questionnaire in respect of this study was being conducted. This result from pilot were found to be reliable at Cronbach's alpha: $\alpha = \frac{n}{n-1}\left(1 - \frac{\sum Vi}{Vtest}\right)$ = 24/23(1- 0.235/0.868) = 0.868. Since according to Cooper and Schindler (2008) recommend a figure more than 0.7 to be an acceptable reliability coefficient. The analytical model used to measure the hypothesis and objective were multiple regression and analysis of variance (ANOVA) models.

5. Results and Discussion

The summary inferential statistics was analyzed using ANOVA and multiple regression analysis. The model provided the solution for the hypothesis based on the objective where the multiple model to give concrete in-depth analysis.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.701[a]	.492	.476	.40639	.492	29.787	4	123	.000
a. Predictors: (Constant), Community based practices, Economic practices, Ethical practices, Philanthropic practices									

Table 1: Coefficient of determination (SPSS version 21.0)
Source: Research data (2017)

The coefficient of determination indicated that 49.2% of the variation was due to corporate social responsibility on the competitive advantage but 50.8% of the variation was as result of other factors other than corporate social responsibility (R Square = 0.492).

			Sum of Squares	df	Mean Square	F	Sig.
Competitiveness * Philanthropic practices	Between Groups	(Combined)	12.197	2	6.099	27.426	.000
	Within Groups		27.795	125	.222		
	Total		39.992	127			

Table 2: Philanthropic Practices and Competitiveness (SPSS version 21.0)
Source: Research data (2017)

The table 2 indicates that philanthropic practices was significant on competitiveness commercial banks ($F = 27.426$, $P = 0.000 < 0.05$).

			Sum of Squares	df	Mean Square	F	Sig.
Competitiveness * Ethical practices	Between Groups	(Combined)	8.694	2	4.347	17.360	.000
	Within Groups		31.299	125	.250		
	Total		39.992	127			

Table 3: Ethical Practices and Competitiveness (SPSS version 21.0)
Source: Research data (2017)

Ethical practices was significantly related with the competitiveness of the commercial (F = 17.360, P = 0.000 < 0.05).

			Sum of Squares	df	Mean Square	F	Sig.
Competitiveness * Economic practices	Between Groups	(Combined)	7.708	1	7.708	30.084	.000
	Within Groups		32.284	126	.256		
	Total		39.992	127			

Table 4: Economic Practices and Competitiveness (SPSS version 21.0)
Source: Research data (2017)

The result from table 4 showed that significant influence of economic practices on competitiveness of the commercial banks (F = 30.084, P = 0.000 <0.05.

			Sum of Squares	df	Mean Square	F	Sig.
Competitiveness * Community based practices	Between Groups	(Combined)	2.531	1	2.531	8.512	.004
	Within Groups		37.461	126	.297		
	Total		39.992	127			

Table 5: Community based Practices and Competitiveness (SPSS version 21.0)
Source: Research data (2017)

The f-statistics indicated community based practices was significant to the competitiveness of the commercial banks (F = 8.512, P = 0.004 < 0.05).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.678	4	4.920	29.787	.000[b]
	Residual	20.314	123	.165		
	Total	39.992	127			
a. Dependent Variable: Competitiveness						
b. Predictors: (Constant), Community based practices, Economic practices, Ethical practices, Philanthropic practices						

Table 6: Corporate Social Responsibility and Competitiveness (SPSS version 21.0)
Source: Research data (2017)

The relationship between the CSR and competitiveness was significant as modelled by regression equation (F = 29.787, P = 0.000 < 0.05). This agrees with the Husted and Allen (2007) who noted social responsibility has some similarity and difference with tradition market, that it has been used to provide competitive advantage to the organization.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.849	.497		1.708	.090	-.135	1.834
	Philanthropic practices	.229	.073	.251	3.149	.002	.085	.372
	Ethical practices	.124	.060	.167	2.057	.042	.005	.244
	Economic practices	.241	.089	.226	2.710	.008	.065	.416
	Community based practices	.210	.067	.241	3.145	.002	.078	.343
a. Dependent Variable: Competiveness in customer relations, market share and suppliers relationship								

Table 7: Multiple Regression analysis
Source: Research data (2017)

The model indicated that philanthropic, ethical, economic and community based practices were significant on the competitiveness of the commercial banks. The beta coefficient indicate in descending order the effect of philanthropic (B_1 = 0.229), ethical (B_2 = 0.124), economic (B_3 = 0.241) and community based practices (B_4 = 0.210) on the competitiveness of the commercial bank. According to Siegel (2000) he also agreed that corporate social responsibility strategies was significantly provide the organization with competitive advantage. He based on the resource based theory to develop the strategic values for the corporate social responsibility.

- $H_0$1: There is no significant effect of philanthropic practices on competitiveness of commercial banks in Kericho town, Kenya.

The result indicated that P-value was 0.002 meaning that (P<0.05). The null hypothesis was reject. These implies that there is significant influence of philanthropic practices on competitiveness of commercial banks.

- $H_0$2: There is no significant effect of ethical practices on competitiveness of commercial banks in Kericho town, Kenya.

P-values was 0.042 which less than 0.05. The null hypothesis was rejected. Hence there was significant effect of ethical practices on the competitiveness of commercial banks.

- $H_0$3: There is no significant effect of economic practices on the competitiveness of commercial banks in Kericho town, Kenya.

The P-value 0.008 was less than 0.05, hence the null hypothesis was rejected. There is significant effects of economic practices on the competitiveness of commercial banks.

- $H_0$4: There is no significant effect of community based practices on competitiveness of commercial banks in Kericho town, Kenya.

The results further indicated that community based practices was significant on competitiveness of commercial banks. The null hypothesis was rejected because P value 0.02 was less than 0.05.

6. Conclusion and Recommendation

The study concluded that the corporate social responsibility significantly determined the competitive environment of the organization. It was attributed by the positive significant influence from philanthropic, ethical, economic practices and community based practices that created competitive advantage with the commercial banks. The competitive advantage was associated with customer relationship, market share and supplier relationship.

The study recommended the commercial banks should then encourage philanthropic practices since it was the highest predictors. Also community and economic practices are also important competitiveness of commercial banks. The government should encourage more on this initiative because it does not only assist the community but the commercial banks and the environment in generation. Other recommendation for the banks to consider as marketing strategy that can assist them to improve their performance and become more competitive in the market. The researcher recommended that further research should be done so as to understand other factors other than corporate social responsibility that improve competitiveness other than the corporate social responsibility.

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