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EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON CUSTOMER SATISFACTION OF COMMERCIAL BANKS IN KENYA

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Abstract

Corporate Social Responsibility has gained an increasingly high profile in recent years. Due to the increased competition with so many corporations offering the same goods and services, consumers can now make the buying decisions based on many factors including how much good a business is doing outside its premises. Companies in Kenya pursue CSR by a way of improving the staff welfare, implementing community development programmes such as building schools, dispensaries, drilling bore holes, funding sporting activities, the establishment of scholarship funds for needy children rehabilitation and maintenance of roundabouts within Central Business District among others. This study sought to find out the effects of CSR on customer satisfaction of commercial banks in Kenya, this being the general variable. The specific objectives of the study were to find out how, corporate philanthropy, staff volunteerism and customers education influences the customer satisfaction of commercial banks in Kenya. The study was anchored on slack resource theory, stakeholders' theory, integrative social contract theory and Good Management Theory to explain the objectives. Descriptive research design

was employed and data was collected using a questionnaire. The population of interest was the 43 registered commercial Banks in Kenya, where the researcher visited the head offices for these banks for data collection. Data was collected using self-administered questionnaires. Data was analysed using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) IBM 2015 version. In addition linear regression model was used to assist in the determination of the relative importance of each of the four objectives on the customer satisfaction of Commercial banks in Kenya. The study concluded that corporate philanthropy significantly and positively affects customer satisfaction in commercial banks in Kenya. In relation to staff volunteerism, the study found that they exist a significantly positive relationship between staff volunteerism and customer satisfaction in commercial banks in Kenya. From the findings, the study also concluded that education significantly and positively affects customer satisfaction in commercial banks in Kenya. The study recommends that the investments in corporate philanthropy should enhance brand reputation of the company. Furthermore, the study

recommends that the management of commercial banks should establish a specific and special team which runs and manages CSR programs which realization that the CRS programs enable the company to pursue a long-term growth strategy for the community. The study further recommends that

the CSR Health training programs should address certain social needs that are essential for everyone.

Keywords: corporate philanthropy, staff volunteerism, public education and corporate social responsibilities

BACKGROUND OF THE STUDY

Corporate Social Responsibility (CSR) refers to the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks (Wangari,2015). It can also be referred to corporate conscience, corporate citizenship, social performance, or sustainable responsible business, is a form of corporate self-regulation integrated into a business model (Kirwa, 2012). According to Musau (2015) Social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behavior that is consistent with sustainable development and the welfare of society.

Corporate Social Responsibility has gained an increasingly high profile in recent years. Due to the increased competition with so many corporations offering the same goods and services, consumers can now make the buying decisions based on many factors including how much good a business is doing outside its premises. According to Flammer (2013), one of the ways in which companies use to ensure their survivor in the society is through involvement in corporate social responsibility activities. He says that high competition fosters CSR since corporations would want to remain competitive. Involvement in CSR ensures that companies benefits as well as the society around them. Sauders (2012) observed that there is an ongoing pressure in the global market for

companies to promote CSR and there is no one corporation that can afford to be totally oblivious to the needs of a community which it is a part of.

According to Jamali and Mirshak (2007) globalization and international trade has led to increased interest in CSR in recent years and this has resulted in increased business complexity and new demands for enhanced transparency and corporate citizenship. Traditionally governments assumed the sole responsibility of improving the living conditions of the population. These social needs have increased beyond the capacity of being fulfilled by the government alone thus necessitating involvement of other organizations.

1.1 Corporate Social Responsibilities

CSR is the set of standards to which a company subscribes in order to make an effect on society and with potential to make positive contributions to the society and to its businesses (Awuor,2010).It is not very clear whether the relationship between CSR and performance of the firm is positive, negative or neutral since different studies have shown different results. It is not also clear which variable affects the other i.e. if the firms with high profitability are the ones that should get involved with CSR or CSR is the one that causes firms to have a high profitability (Munyinyi, 2015).

Those who have seen a positive relationship between the two are of the view that organizations should get involved in CSR since this will increase their profitability and thus the image of the organization. For example Tsoutsoura (2004), observed that socially responsible corporate

performance can be associated with a series of bottom-line benefits.

1.2 Statement of the Problem

CSR is an area of growing debate and discussion worldwide. It is a broad concept that goes beyond obligations of companies towards its shareholders. Companies have over the years made budgetary allocation for CSR activities to the extent that it has become a business obligation (Wood, 2011). It is the responsibility of business managers to ensure that the firm's bottom-line improves. Socially responsible corporate performance can be associated with a series of bottom line benefits. But in many cases, it seems that the time frame of the costs and benefits can be out of alignment the costs are immediate, and the benefits are not often realized quarterly (Margarita, 2010). Over the years the provision of CSR by banks in Kenya has increased exorbitantly, with banks spending millions of shillings to offers these services. For example Equity group foundation announced its Wings to fly programme which offers scholarship to over 3000 children's every year (equity bank annual newspaper 2015). KCB bank has extent CSR all over the country by engaging in several activities such as sports and recreational activities and also donations to school among others. Despite all these huge spending in CSR activities, the engagement are termed unprofitable to the firm. However, the engagement have some 'invisible' returns to the firm and which either directly or indirectly will affect the performance of the firm. Therefore this study will seek to find out implications of CSR to the banks in Kenya given that the banks are competing with one another in the provision of CSR.

Several studies have been conducted both locally and internationally on corporate social responsibility. Babalola (2012), in a study of the impact of corporate social responsibility on firms © Munyi, Mbugua

profitability in Nigeria found that organizations have developed a variety of strategies for dealing with the intersection of societal needs, the natural environment and corresponding business imperatives with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide. Similarly, Ntoi (2011), studied on the impact of CSR on the corporate financial performance of companies listed on Johannesburg securities exchange and found that through three different mechanisms, finance is shown to drive CSR.

In addition, Mbithi (2015) conducted research on the effects of corporate social responsibility on organizations' profitability of the banks listed at Nairobi stock exchange and found that CSR has a positive impact on an organizations financial performance. Similarly, Nyangongo (2005) and Kirwa (2012), researched on the role of corporate social responsibility in the profitability of selected companies in Nairobi.

Most of the above mentioned studies done locally have concentrated on the effects of CSR on financial performance of the firms. The previous research has fail to acknowledge the two measures of performance of an entity, that is; financial performance and the non-financial performance. However, the existing literature acknowledged that CSR may influence the financial performance of the firm significantly (Mbithi, 2015). A gap has been left out on how CSR aspects such as work policies, corporate philanthropy, staff volunteerism and customer education and how they affect the customer satisfaction. Therefore, this research sought to bridge the gap on the effect of corporate social responsibility on customer satisfaction in Commercial Bank in Kenya.

1.3 Objectives of the study

- i. To establish the effect of corporate philanthropy on customer satisfaction in commercial banks in Kenya.
- ii. To identify the effect of staff volunteerism on customer satisfaction in commercial banks in Kenya.
- iii. To determine the effect public education on customer satisfaction commercial banks in Kenya.

1.4 Scope of the Study

The study, sort to evaluate the effects of CSR on customer satisfaction of commercial banks in Kenya. However, specifically this study focused on three objectives which were public education, staff volunteerism and corporate philanthropy. In addition, this study was limited to the banking industry in Kenya. In addition, the study focused on data from commercial banks in Kenya on number of customers in the last 6 years (2010-2015).

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Slack Resources Theory

The Slack resources theory was developed by Waddock and Grave (1997). They argued that when a company's financial performance improves, slack resources will be available to enable the company to conduct corporate social performance such as society and community relation, employee relation, and environment performance.

The theory suggests a positive relationship between CSR and performance just like good management theory. However, the theory proposes a different temporal ordering, that CSR is directly associated with subsequent financial performance. High levels of CSR may provide the slack resources necessary to engage in corporate social responsibility and responsiveness (Waddock & Graves, 1997). CSR

often represents an area of relatively high managerial discretion, the initiation or cancellation of voluntary social and environmental policies may, to a large extent, depend on the availability of excess funds (McGuire *et al.*, 1988). The theory implies bidirectional causality between corporate social performance and financial performance. Hence, CSR leads to high financial performance and also high performance leads to more investment in CSR

2.1.2 Good Management Theory

The theory was proposed by Waddock and Graves (1997) and predicts that CSR and financial performance are generally positively related across a wide variety of industry and study contexts. According to this theory, the satisfaction of various stakeholder groups is instrumental for organizational performance. According to Secchi's (2007), managerial theory emphasizes on the effects corporate management decisions and policies in companies that practice CSR. The theory asserts that, everything external to the companies is taken into account for in the organization by the management. Managerial theories have three key sub groups which are; corporate social performance, social accountability and auditing reporting, social responsibility for multinationals.

The theory implies that investment in CSR leads to increased financial performance since by addressing and balancing the claims of multiple stakeholders; managers can increase the efficiency of their organization's adaptation to external demands. High corporate performance is viewed not only as coming from the separate satisfaction of bilateral relationships but also from the simultaneous coordination and prioritization of multilateral stakeholder interests (Wangari, 2014).

3.0 RESEARCH METHODOLOGY

The research problem was studied through the use of a descriptive research design. Descriptive research was the investigation in which quantitative data was collected and analyzed so that to describe the specific phenomenon in its current events, current trends and linkages between different factors at the current time. The population of this study comprised the 42 commercial banks in Kenya. This study applied primary data by use of structured questionnaires. Closed ended Questionnaires was used. Greener (2008) observed that, the questionnaire design defines the problem and the specific study objectives. Questionnaires are very economical in terms of energy, time and finances. In the same way, it yields qualitative data which can be collected easily and analyzed. This study made use of both structured and unstructured questions. The data was analyzed using inferential statistics. Data was presented by use of mean, percentages and frequencies to display a visual presentation of the data, for ease of understanding and analysis. The coded was analyzed using inferential statistic by the aid of Statistical Package for Social Sciences (SPSS version 20).

The multivariate regression model for primary data:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where: Y =customer satisfaction in commercial banks

β_0 = Constant Term;

$\beta_1, \beta_2, \beta_3$ and= Beta coefficients;

X_1 = corporate philanthropy;

X_2 = staff volunteerism;

X_3 = public education;

ε = Error term

RESEARCH FINDING AND DISCUSSION

4.1. Correlation Matrix

Table 4.1 Correlation Matrix

Variables	Corporate philanthropy	Staff Volunteers	Public Education	Customer Satisfaction
Corporate philanthropy	1.000			
Staff Volunteers	0.002	1.000		
Public education	0.262	0.620	1.000	
Customer satisfaction	0.475	0.452	0.425	1.000

The study used correlation matrix to establish if linear relationship exists between individual variable and customer satisfaction in commercial banks in Kenya. From Table 4.1 below, there was: positive linear association between corporate philanthropy and customer satisfaction in commercial banks in Kenya ($r = 0.475$). The finding are in line with Handleman and Arnold (1999) who concluded that they is a positive relationship between corporate philanthropy and customer satisfaction. He noted that consumers engaged in positive word of mouth about firms that were committed to actions that were allied with institutional norms (in Maignan and Ferrell, 2004). Similarly, studies by Barone *et al.*, (2000), Berger and Kanetkar (1995), and Creyer and Ross (1997) established that consumers are willing to actively support companies committed to cause-related marketing, environmentally-friendly practices, or ethics (Maignan and Ferrell, 2004).

The study established positive linear association between staff volunteerism and customer satisfaction in commercial banks in Kenya ($R = 0.452$). The results agree with the finding of Mael & Ashforth, (1992) who established a positive relationship between staff volunteerism and customer satisfaction. He noted that when the customers have perceptions of oneness with an organization, they will perceive organization's successes or failures as their own and generate organizational identification (Mael & Ashforth,

1992). Since volunteerism programs reveal company’s values concerning society’s well-being, the employees having the same values will have more sense of belongingness and identification with their company.

Finally, positive linear association was established between public education and customer satisfaction in commercial banks in Kenya. (R = 0.425). The results concurs with the finding of He & Li, (2011) who established strong positive relationship between public education and customer satisfaction. He added that customers are more likely to be satisfied when the product training meets the prior-purchase/consumption expectations. The positive effect of public education on customer satisfaction is further supported by Chaudhuri & Holbrook, (2001). He argues that social awareness provides a more favorable framework for customers to react to brand function experiences against prior expectations. When the expectations from brand awareness are met, the customers who are more identified by the brand feel more satisfaction. For this reason, the customers enhance their psychological dependence to brand that in turn improves their self-esteem.

4.2 Regression Results

A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable.

Table 4.2 Regression Results

Variable	Coefficients	Std. Error	t-statistic	p-value
(Constant)	1.356	0.340	3.988	0.000
Corporate Philanthropy	0.416	0.051	8.204	0.000
Staff Volunteerism	0.364	0.049	7.412	0.000
Public education	0.291	0.048	6.065	0.000
F => 254.594		P=> 0.000		Adjusted R-squared 0. 88

As per Table 4.2, the equation (Y = β0 + β1X1 + β2X2 + β3X3 + ε) becomes:

$$Y = 1.356 + 0.416X1 + 0.364X2 + 0.291X3$$

Where Y is the dependent variable Customer Satisfaction

X1 - Corporate Philanthropy

X2 - Staff Volunteerism

X3 - Public Education

4.3 Corporate Philanthropy

The findings presented show that taking all other independent variables at zero, a unit increase in the Corporate Philanthropy would lead to a 0.416 increase in the scores of Customer Satisfaction. The results agree with the finding of Yang, & Pai, (2010) who states that corporate Philanthropy is one of strategic tools of communicating and maintaining the relationship with multiple customers (Barnett, 2007; Lai, Chiu,). Effective implementation of corporate Philanthropy can enhance customers’ perception of corporate reputation (Maden, Telci, & Kantur, 2012), which may resonate across different customers.

4.4 Staff Volunteerism

The finding further established that a unit increase in the scores of Staff Volunteerism would lead to a 0.364 increase in the scores of Customer Satisfaction. The results agree with the finding of Kim, Lee, Lee, & Kim, (2010) who established a direct relationship between staff volunteerism and customer satisfaction. He added that for staff volunteerism to satisfy customers the external CSR activities should contain all kinds of volunteerism activities related to external stakeholders such as volunteer services and social participation. According to the past research, the customers’ perception of companies’ volunteerism activities affect their mood, attitude and even behavior in their work (Rupp, Ganapathi, Aguilera, & Williams, 2006).

4.5 Public Education

Finally, the findings shows that a unit increases in the scores of Public Education would lead to a 0.291 increase in the scores of Customer Satisfaction. The result concurs with the finding of Keller (2004), who established positive relationship between public education and customer satisfaction. He noted that public education via social awareness is one of the easiest and most effective ways to promote commodity related products due to the fact that they have relatively fewer differentiations, which makes it more competitive if you have a strong and recognize brand. Consumers turn to make decision quickly about a product if the know or recognize the brand. The more customers can recognize, retain and remember a firms brand the likely fact that they will shop and that firm is greater than shopping elsewhere. This is an advantage against competitors as customers overlook at the price and other quality when the trust and know a brand, it became a part of the customers life style to shop where they are used to and have confident in the brand.

CONCLUSIONS AND RECOMMENDATIONS

The study sought to establish the influence of corporate philanthropy, staff volunteerism and public education on customer satisfaction in commercial banks in Kenya. A total of 126 questionnaires were administered and the study managed to obtain 101 completed questionnaires representing 80% response rate. The questionnaires contained questions that addressed the objectives of the study. The study has established that corporate philanthropy significantly and positively affects customer satisfaction in commercial banks in Kenya. Furthermore, the study also established that commercial banks bank conducts campaigns on environment awareness. The study further established that commercial banks bank has several CSR programmers running in the society. Finally,

the study found out that commercial banks provides scholarship to the needy in the society.

In relation to staff volunteerism, the study found that they exist a significantly positive relationship between staff volunteerism and customer satisfaction in commercial banks in Kenya. In accordance to regression results. Furthermore, the study established that staff suggestions on CRS activities are welcomed in the commercial banks in Kenya. The study further established that CSR in the commercial bank have been successful due to staff commitment and willingness. Finally, the study established that staff volunteerism in CSR activities motivates Customers loyalty

The study has established that public education significantly and positively affects customer satisfaction in commercial banks in Kenya. The study further concluded that commercial banks commercial banks train the public on health issues and other topics beside the products. The study also established that customers are always communicated about the current issues and changes in the bank. Finally, the study established that the commercial banks in much devoted to training programs of the customers.

5.1 Conclusions

The study sought to establish the extent to which corporate philanthropy, staff volunteerism and public education affect customer satisfaction in Commercial Bank in Kenya. The study made the following conclusions: The study concluded that corporate philanthropy significantly and positively affects customer satisfaction in commercial banks in Kenya. The study further concluded that commercial banks conducting campaigns on environment awareness, commercial banks running several CSR programmes running in the society and finally commercial banks providing scholarship to the needy in the society were the major aspect of

corporate philanthropy that have been implemented by the commercial banks.

In relation to staff volunteerism, the study found that they exist a significantly positive relationship between staff volunteerism and customer satisfaction in commercial banks in Kenya. The study further concluded that the aspects of staff volunteerism that have been implemented by the commercial banks include the following; Staff suggestions on CRS activities are welcomed, CSR in the bank have been successful due to staff commitment and willingness and finally staff volunteerism in CSR activities motivates Customers loyalty. However the study concluded that the commercial banks does not always train it staff on the importance of CSR and that commercial banks does not have a specific team which runs and manages CSR programs.

From the findings, the study concluded that education significantly and positively affects customer satisfaction in commercial banks in Kenya. The study further concluded that banks training the public on health issues and other topics beside the products, Customers always being communicated about the current issues and changes in the bank and finally banks being in much devoted to training programs of the customers were the major aspects of public education that have been implemented by the commercial banks. However the study concluded that commercial banks does not train the public about the services and products they offers.

5.2 Recommendations

The study recommends that the investments in corporate philanthropy should enhance brand reputation of the company. Corporate philanthropy should create a sense of satisfaction among customers. CSR in Corporate philanthropy should promote accountability to the stakeholders and

create value in the minds of both external and internal stakeholders.

The study recommends that the management of commercial banks should establish a specific and special team which runs and manages CSR programs which realization that the CRS programs enable the company to pursue a long-term growth strategy for the community. It also establishes a positive reputation as one of the indicators of a firm's performance.

The study recommends that the CSR Health training programs should address certain social needs that are essential for everyone. Health training programs should be able to alleviate social problems and allow employees to be part of a solution to a greater problem above the normal issues of profit maximization. CSR Health training programs should inspire the employees to improve their productivity, morale, reduced absenteeism, increased retention and improved productivity. This can build a sense of community and teamwork that brings everyone together and leads to happier, more productive employees.

5.3 Areas for Further Research

To validate the findings of this study, this study recommends that future studies be replicated in different sectors of the economy besides banking industry. This could be undertaken in insurance companies especially the insurance companies in the East African region. Furthermore, a similar study using investment and development banks could also provide substantive literature for comparison. This could provide literature for comparison to the findings of this study. Secondly, this study recommends research on the impact of CSR on customer satisfaction in commercial banks in Kenya given that this study has explained 88% has indicated in the R square adjusted. Other aspects of CSR captured in the 22 % remain unsearched.

Though it is generally perceived to be negative, the magnitude or extent of the impact has not been examined and this could provide literature on how

CSR affects various performance indicators of the commercial banks.

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