

**CORPORATE SOCIAL RESPONSIBILITY AND
COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS
IN KENYA**

**BY
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DECLARATION

I declare that this project is my original work and has not been submitted to any other university or institution of higher learning for examination purposes.

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This project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my family for their support, companionship and encouragement throughout the whole duration of this course.

ABSTRACT

The role of any business is to not only make profits today but also sustain continuous growth into the future. Sustainable growth can only be manifested if a business identifies and develop competitive advantage strategies. As competition in the banking sector intensifies not only amongst themselves but from non-traditional competitors such as telcos, Micro Finance Institutions, Saccos etc. commercial banks have increasingly adopted Corporate Social Responsibility initiatives as a strategy to ensure goodwill from the community in order to not only operate with ease but also grow and sustain business into the future. Such initiatives are aimed at improving the living and working standards for the members of community in which the banks operate in. The objective of the study was to establish whether there existed a relationship between Corporate Social Responsibility and competitive advantage amongst commercial banks in Kenya. The research methodology used for this study was a cross sectional survey and focused on all the 43 commercial banks in Kenya. The study collected primary data by use of a self-administered questionnaire. Qualitative data was analyzed using descriptive statistics and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. The study concluded that banks use CSR as a strategy in order to drive overall goodwill in the society, to onboard new clients and investors and to motivate employees. These critical components were key in driving business growth. The study also indicated the existence of relationships between CSR initiatives and business growth indicators. The study recommended sustained participation in CSR initiatives in order to drive brand appeal and sustenance into the future. Involvement of stakeholders of the banks is also a recommended approach to drive individual ownership and overall in-depth brand penetration to the existing parties. This paper seeks to enrich the discussion on the strategic management of social responsibility and contribute to literature on Corporate Social Responsibility as well as strategy and competitive advantage. As the broadening of studies in the field and the dissemination of theories are important undertakings, the discussion of such issues serves as a motivation and help generate new ways of thinking and paradigms. The key limitation to the study was lack of participation by all recipients, however 31 banks responded back amidst numerous visits. The bureaucracy in the different banks also proved to be a challenge with the need for continuous follow up by the researcher.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The Kenyan banking sector comprises of Commercial Banks, Saccos, Micro Finance Institutions and most recently the Telecommunication companies. Currently only 8.6 million accounts are active in Commercial Banks with the bulk of the population relying on the other players in the sector. The competitive landscape is stiff with aggressive sales and marketing activities, product/service development and continuous innovation break through being employed with the aim of gaining a lasting competitive advantage. Unfortunately the different undertakings in the segment tend to be homogenous and in the case of new products they are easily duplicated and therefore competitive advantage is short-lived.

A differentiation strategy that can provide a competitive advantage with long term benefits is the understanding, structuring and optimizing on Corporate Social Responsibility. Effective use of CSR can act as a differentiator as it is not easily duplicated and can provide a lasting positive impact to an organization. The project that is proposed for study aims to reviewing use of CSR as a competitive advantage strategy in the Kenyan banking sector.

1.1.1 Corporate Social Responsibility (CSR)

The World Business Council for Sustainable Development defined Corporate Social Responsibility as continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (Holme and Watts 2010).

The term generally applies to company efforts that aimed at building sustainable livelihood and such initiatives go beyond what may be required by regulators or environmental protection groups. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term “stakeholder”, meaning those on whom an organization's activities have an impact. It was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman, Strategic management: a stakeholder approach. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. (Carroll and Buchholtz, 2000).

Companies undertake CSR activities as a result of the realization that to compete in today's market, a company needs to strive for excellent relationships between its suppliers, as well as its customers and the communities in which it operates. Government regulations increasingly mandate social responsibility reporting. In the UK for example publicly listed companies are required to disclose ethical, social and environmental risk in its annual report (Porter and Kramer, 2004). In Kenya this is not a mandatory requirement but is noted as one of the key pillars under the good corporate governance act. By participating and

disclosing CSR initiatives companies are able to attract and retain investors, customers and suppliers. These pressures have demonstrated the extent to which external stakeholders are seeking to hold companies accountable for social issues.

The scope of CSR is conceptually quite unbound at the present time. The debate between the private sector, civil society and governments focuses on a few key issues as there is no single commonly accepted classification of the main components of CSR. Often, CSR is related to: Environmental protection, human rights, community development, enterprise development, health promotion, and human disaster relief amongst many more. Selection and focus for different businesses is reliant on the strategic fit required.

1.1.2 Competitive Advantage

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals (Porter 1985). The goal of any business is to achieve a sustained competitive advantage and sustained growth in profits. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

Porter (1985) identified two main types of competitive advantages: comparative advantage and differential advantage. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competition or to generate a larger margin on sales. A differential advantage is created when a firm's product or service differs from its competitors and are seen as a better option. The distinctive competencies (core

competencies), resulting from the specific firm's resources and capabilities, facilitate innovation, efficiency, quality and customer receptiveness, all of which can be leveraged to achieve either a lower cost structure or a differentiation product.

Competitive advantage examines the economics of a firm's business focusing primarily its ability to generate excess returns on capital and links the business strategy with fundamental finance and capital markets, for a longer period of time. In the end, it is a firm's competitive advantage that allows it to earn excess returns for its shareholders. Without a competitive advantage, a firm has limited economic reason to exist- its competitive advantage is its reason of life.

CSR is often viewed as the human side of any organization; it brings to life the caring and partnership elements that are critical for a business to operate in a society with acceptance and ease. Porter and Kramer (2006) reviewed that if corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed. It can be a source of opportunity, innovation, and competitive advantage. A company must focus on shared value choices that benefit both civil society and the business. By definition, this cannot succeed as a short term effort but must be a fundamental part of the strategy of an organization.

1.1.3 Commercial Banks in Kenya

The Kenya banking sector comprises of 43 commercial banks, 1 mortgage finance company and 6 deposit taking micro-Finance institutions of local and international origin.

(CBK, 2013). Regional integration is taking hold within Kenya's banking sector with increase entry of regional banks such as Nigeria's United Bank for Africa (UBA) Lome-based Eco bank and the Gulf region banks such as Gulf African Bank and First Community Bank.

There are approximately 8.3 million bank accounts in Kenya. With a total population of more than 36 million people, there is clear scope for further penetration of the market. The five largest banks i.e. KCB, Equity Bank, Co-operative Bank, Barclays Bank and Standard Chartered Bank have captured approximately 80 percent of the retail-market. This leaves approximately 20 percent market share for the remaining banks, which are left to compete with each other vigorously for little market gain. The remaining banks exhibit varying degrees of technical sophistication, capital market expertise and technology innovation.

The banking sector in Kenya is a very lucrative but offer homogenous products and services. Marketing initiatives to differentiate and create a lasting competitive advantage has increased over the years with the aim of attracting and retain new and existing customers. Communication efforts have been fruitful in brand building and product/service awareness but this has not offered a long term solution for banks that aim at long term growth and stakeholder loyalty. The need for creation of a lasting competitive advantage has recently lead to revisions of both long term and short term goals. The CSR initiatives are some of the earmarked strategies utilized by some commercial banks. Deliberate efforts have been undertake by some banks to set aside annual budgets to run selected thematic CSR initiatives.

1.2 Research Problem

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. (Porter 1985) The overall goal for most organizations is to achieve a sustainable competitive advantage. This however tends to be a challenge in a homogenous industry where products and services are of similar offering amongst players in the industry. For companies that do implement some level of CSR it is noted that they tend to approach it in a generic way instead of in the way most appropriate to firm's strategy. Porter & Kramer (2006) indicate that if corporates analyze their prospects for social responsibility using the same framework that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint or a charitable deed. It can be a source of opportunity, innovation and competitive advantage.

Currently commercial banks in Kenya are competing in a very dynamic environment where competition is not only amongst themselves but also from other players such as micro-finance institutions, Saccos and Telecommunication providers. Unlike the last two decades, currently customers are spoilt for choice and can easily access financial solutions. Product and service offering is continuously changing with new innovative ways of banking that are not exclusive to one particular bank. Lack of differentiation in the sector has led to no significant and impactful long term competitive advantage. If used effectively the corporate social responsibility strategy can provide an avenue for differentiation in the homogenous industry. Unlike the strategies currently employed that can be easily

duplicated, CSR strategies are not easily duplicated and can therefore have long term benefits to the banks.

There have been extensive studies on competitive advantage in the banking sector in Kenya. For example, Karanja(2011) study was directed to innovative strategies, Oray (2010) research was focused on product differentiation, Owuor, (2004) study was on strategic alliances, Karanja (2011) research was directed to performance management etc. The study of competitive advantage and corporate social responsibility has been undertaken in the banking sector but the researches were only focused on individual banks. Nzovah (2012) focused on Standard Chartered bank while Kivra (2011) focused on Equity Bank. No specific study has been undertaken in regards to competitive advantage and corporate social responsibility in the banking sector. This study will seek to answer the question: Do Banks that are actively involved in CSR enjoy better competitive advantage?

1.3 Research Objectives

The study will have two objectives. These are-

- i. To determine the kind of CSR initiatives that Commercial Banks in Kenya are engaged in.
- ii. To establish whether Banks that are involved in CSR enjoy a better competitive advantage in Kenya.

1.4 Value of the Study

The in-depth study of competitive advantage and CSR will enable companies understand the need for CSR and its impact to the business on a long term basis. The findings of this study will be of great importance to firm managers by providing knowledge on the direct and indirect the relationship between CSR and competitive advantage. This will be useful for the managers when formulating policies for their firms and competitive strategies.

Secondly, the policy makers may find the study compelling as they will be able to re-strategies some of their policies in order to retain positive affinity by existing and new customers therefore creating a long term unduplicated competitive advantage. This will not only apply amongst commercial banks but for any player in a cut throat competitive environment looking to gain positive association with long term benefits.

Thirdly, to interested long term investors, the study will assist the members of the public in establishing the most socially responsible firms and make investment decision based on the credibility of the firms. Positive impact and brand appeal has a long term gain to any business and investors are constantly looking into companies that will have long term benefits to their bottom line.

Lastly, to the academia and researchers, the findings will serve as a data bank and will be used for further research in the area of strategic choices with the aim of gaining a competitive edge. There is little previous research in the study focusing on the link between CSR and competitive advantage. The study will identity other gaps that require further

research to be carried out and thus contribute to other fields of study for researchers looking for research topics. The findings of this study could be developed further and published in academic journals.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Corporate social responsibility and competitive advantage are important issues for the contemporary discussion on corporations in society when taking into account social and environmental impacts. This chapter presents a theoretical review that demonstrates the association between CSR strategy and competitive advantage through formulation of social strategies that influence and are influenced by opportunities to gain long term differentiation.

2.2 Corporate Social Responsibility (CSR)

Even though in the past corporations were regarded as playing a single economic profit making role, this view has been challenged and has changed drastically over time. As argued by Moore and Velasquez (2003) organizations do not simply constitute as business systems whose role is to create profit but they are widely more responsible about the social environment in which they execute their practices. Corporate Social Responsibility (CSR) has emerged as a field of study that explores the relationship between an organization and its stakeholders (Keller, 1993).

The World Business Council for Sustainable Development defines CSR as the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities. The fundamental idea of CSR is that business corporations have an obligation to work towards meeting the needs of a wider array of stakeholders. (BSR, 2001). More generally, CSR is a set of management practices that ensures the company maximizes the positive impacts of its operations on society or

operating in a manner that meets and even exceeds the legal, ethical, commercial and public expectations that society has of business Porter and Kramer (2006) discuss the existence of the interdependence between corporations and society, since a company's activities have a direct impact on the communities with which they work. This can lead to either positive or negative consequences. Management should take into account societal expectations and decisions, as there can be some attractive alternatives when goodwill or services to society are considered.

Over the years CSR has been largely driven by the increased expectation and standards of citizens. Citizens no longer accept corporations which behave well at home while overlooking or even violating basic norms of consumer, workers, environmental and community protection (Corporate concern, 2005). The Shrinking role of government is another driver. Moon, Matten and Crane (2005) argue that while governments have relied on legislation and regulation to deliver social and environmental objectives in the business sector, shrinking government resources along with a distrust of regulations, have led to the exploration of voluntary initiatives. Brand and Risk Management is another key driver whereby businesses take the initiative to publicly demonstrate their operations meet or exceed legal requirements and societal norms, they better communicate to interested parties that they are systematically reducing commercial risk and other disruptions. In so doing, they ensure other firms' policies or practices do not tarnish their reputation and thus open doors to new commercial opportunities (Batson, Ahmad and Tsang, 2002). Growing customer and investor interests in ethically conducted business is a growing concern for businesses aiming at attracting investors. Many investors are therefore making decisions based on ethical criteria, assessing if the invested companies are socially responsible. There

is a greater demand for a corporate disclosure for stakeholders regarding CSR activities of the business

Porter and Kramer (2006) claims that proponents of CSR have used four arguments to make their case: moral obligation, sustainability, license to operate, and reputation. License to operate is a justification derived from the fact that every company needs tacit or explicit permission from governments, communities, and numerous other stakeholders to do business. At this level a company is a step above legal requirements, but not making significant efforts to do anything beyond maximize profitability. Reputation is another key justification used by companies whereby they use CSR initiatives on ground improves a company's image, strengthen its brand, enliven morale and even raise the value of their stocks in the exchange markets. This approach tends to have short term benefits as the initiatives tend to be forgotten over time. The third justification, Moral Obligation, deals with something that Weiskel (2001) referred to as the oughtness of things and indicates this is where companies have a duty to be good citizens and to do the right thing. The final justification, sustainability, emphasizes on environmental and community stewardship. Whereby the organizations meet the needs of the present without compromising the ability of future generations to meet their own need. This takes the further step of working to protect the firm's reputation.

2.3 Competitive Advantage.

One of the major environmental influences in a business arise from competition. Increased competition threatens the attractiveness of an industry by reducing the profitability of players (Porter, 1990). Firms respond to this by being proactive in their strategy formulation and implementation with the overall aim of gaining a competitive advantage.

Competition denotes the existence of firms that try to sell identical products or services to the same group of customers.

Competitive advantage, also called business specific advantage, refers to some propriety characteristics of a business, which cannot be imitated by competitors without substantial cost and risk. Barney (1991) indicates that the creation of competitive advantage occurs through the implementation of strategies that add value and create benefits for one company when another company fails to do so. For any company to remain relevant they need to achieve a sustained competitive advantage. Sustained competitive advantage is the prolonged benefit of implementing some unique value creating strategy not simultaneously being implemented by any current or potential competitor, along with the inability to duplicate the benefits of this strategy (Hoffman, 2000). Competitive advantage enables businesses to survive against its competition over a long period of time.

Day (1984) and Porter (1987) see competitive advantage as the objective of strategy, arguing that superior performance will automatically result in competitive advantage. Reed and DeFillippi (1990) suggest that competitive advantage can be derived from numerous sources and that strategy manipulates the sources of advantage under the firm's control in order to generate competitive advantage.

According to Porter (1985) in his work analyzing the competitive forces in industry suggested four "generic" business strategies that can be adopted in order to gain competitive advantage. The four strategies relate to the scope of business activities; narrow versus broad and the extent to which business seeks to differentiate its self.

Figure 2.1. Competitive advantage Generic Strategies model

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

Source: Porter Michael E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. (2nd ed.)New York: Free Press.

An organization adopting a cost leadership strategy aims to become the lowest cost producer in the industry and therefore exploit all sources of cost advantage. According to Porter (1990) an organization can do this by concentrating on aspects of its value chain that are especially valued by customers and outsourcing the other activities. Many market segments in the industry are supplied with emphasis placed on minimizing cost. This strategy on occasion may have a cost advantage over competition and increase market share but tend to be short lived and can easily be duplicated and may render losses to the firm eventually.

In the differentiation strategy, an organization seeks to be unique in its industry in certain areas. It therefore focuses on one or more attributes that buyers in the industry perceive as important and position itself uniquely to meet those needs. Differentiation can be based on

the product itself, the delivery system or its marketing approach. The organization must be truly unique at something in order to be perceived as different. One way of achieving competitive advantage is through competence based approaches in which an organization tries to build differentiation as its core competence, which if peculiar to the organization will be difficult for competitors to imitate (Johnson and Scholes, 2002). These strategies have a long term benefit to the business especially so if they are not easily duplicated.

The focus strategy rests on the choice of a narrow scope within an industry. An organization using this strategy therefore selects a segment or group in the industry and concentrates its efforts on serving these alone.

Companies may use any one or combination of these strategies to gain a competitive advantage. Businesses that are able to create competitive advantage using one or more of these strategies will experience above-average profits within their industry. However if businesses are unable to gain and sustain a competitive advantage, rivals will quickly copy the strategies or even improve these initiative therefore a loss of competitive advantage. Ghemawat (1986) found that competitors secure detailed information of 70% of all new products within a year of development.

Ensuring sustainability of competitive advantage requires significant investment from the firm in order to raise the barriers to imitation. While it is clear that no advantage is indefinitely sustainable and that no barrier to imitation is insurmountable, several options existing to prolong competitive advantage. These include: Firstly, arguably, the most effective barrier to imitation are achieved when competitors do not comprehend the competencies of which advantage is based (Reed and DeFillippi, 1990; Zook and Allen,

2001). This refers to a situation where it is difficult for rivals to understand how a firm created the advantage it enjoys. Secondly, fit is fundamental to the sustainability of advantage. It is harder for a rival to match an array or interlocked activities than it is to copy a single activity (Porter, 1996). Thirdly, according to Christensen (2001) the practices and business models that constitute competitive advantage are only relevant at a particular time with particular factors at play and under certain conditions. This strategy however is not sustainable. Lastly physically unique resources are per definition impossible to imitate. Pearce and Robinson (2000) suggest examples such as strategically located positions, patents, copyrights etc. They concede however that only in rare cases can resources be considered being physically unique.

The key to unlocking sources of growth is investment in and building a sustainable competitive advantage. Zook and Allen (2001) state that achieving sustainable and profitable growth is extremely difficult without having at least one strong and differentiated core business on which to build. Building this strong and differentiated competency would require access to some form of competitive advantage.

2.4 Corporate Social Responsibility and Competitive Advantage.

Corporate Social Responsibility has become a strong and irreversible part of corporate actions. When managed effectively, CSR programs and projects can create significant benefits in terms of reputation and returns as well as the motivation and loyalty of employees. Through CSR companies can contribute toward strengthening valuable partnerships (Pearce & Doh, 2005). Husted and Allen (2001) state that CSR strategies can

create competitive advantages if used properly, pointing out that there is a positive association between strategic social responsibility actions and competitive advantage. A company can use social initiatives to improve its competitive context, enhancing the quality of the business environment in the places it operates. Focusing on context allows the company to increase its potentialities in the support of social responsibility actions and contribute toward society in a structured fashion.

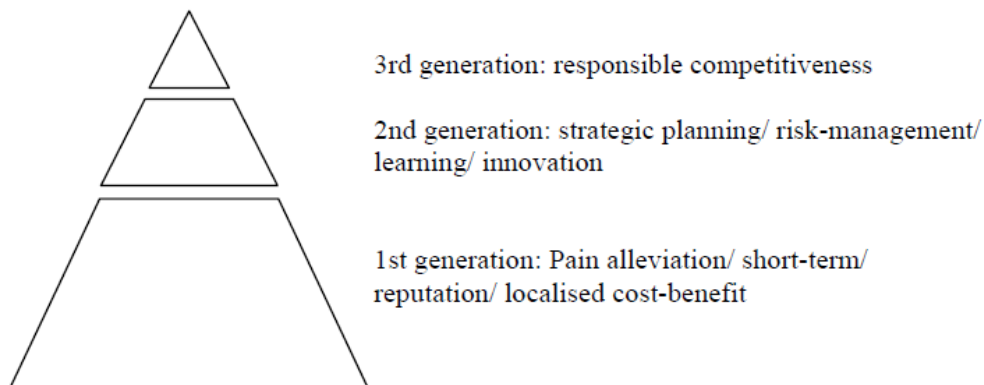
A company's action should be directly connected to its core business in order to maximize the potential of these actions (Porter & Kramer, 2002). An alignment of business strategy, social responsibility action and core business activities should occur in order to achieve efficient corporate social strategies and overall competitiveness. According to Barney (1991) competitive advantage can be achieved through internal resources. However to obtain the advantage, the resources must be valuable, exploring the opportunities and neutralizing threats to the environment of the firm, rare not being present in any rival, inimitable so that others cannot imitate. A company can create social projects connected to its core business that are valuable, rare and inimitable, thereby creating competitive advantage (Burke & Logsdon, 1996).

A group of intangible resources, such as good corporate governance, efficient execution of innovative social projects and ethical management in business, can be also be differentiating source of competitive advantage. However, it is important to say that there is only the creation of competitive advantage through CSR if the benefits to society really exist, as such benefits should be implicit to the philosophy of social strategies (Husted & Allen, 2001). To be a source of competitive advantage, CSR actions should create real and consistent results for society. Increased concern with external aspects as an internal value

to strategic social decisions leads to reflection regarding courses of action, analyzing and anticipating the effects of the corporation behavior while predicting the potential positive or negative consequences (Alessio, 2003).

According to Zadek (2005), for companies in which CSR is rooted, it is not difficult to meet new market expectations, such as dealing with corruption, human rights, environmental management in the supply chain etc. Zadek (2005) identifies three generations of companies in relation to their responsible competitiveness. First generation companies have a short-term, pain alleviation strategy. Second-generation companies establish strategic planning and risk management policies. Third generation companies incorporate the concept of social responsibility into their strategy and therefore attaining responsible competitiveness which has a long term positive impact on a company.

Figure 2.2 Responsible Competitiveness (Zadek, 2005)



Source: Zadek, S., Merme and M., Samans, R. (2005). *Mainstreaming Responsible Investment*, Geneva: WEF.

In support of the Zadek's model Mahon (2002) considered CSR as an important component in reputation building as it is an internal resource that if well managed, it can be an important differentiating aspect and potential creator of competitive advantage. Researchers in marketing, public relations and communication have shown corporate reputation to be a crucial element in increasing the purchase of products and services. For Logsdon and Wood (2002), reputation is a powerful concept for business, government and non-profit organizations. Management, internal and external stakeholders use reputation to evaluate and communicate their perception on business and corporations. Therefore, a good reputation can produce better results for the company. If utilized well, CSR should help enhance this reputation and, consequently, create competitive advantage.

A company can use social initiatives to improve its competitive context, enhancing the quality of the business environment in the places it operates. Focusing on context allows the company to increase its potentialities in the support of social responsibility actions and contribute toward society in a structured fashion. Consequently, the company's action should be directly connected to its core business in order to maximize the potential of these actions (Porter & Kramer, 2002; Zadek, 2006). An alignment of business strategy, social responsibility action and core business activities should occur in order to achieve efficient corporate social strategies and overall a channel to create a sustained competitive advantage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the methodology that was applied during the research regarding the type of research design, population, sample design, data collection and data analysis technique. Each section highlights the rationale for each process and method chosen for the research methodology.

3.2 Research Design

A research design is a structure for identifying the relationship among the study's variables and sketches out the methodology for every research action. Among other importance of a research design is that, it ensures the study is applicable to the problem and its procedures are cost-effective for obtaining information.

This study adopted the research design as a cross sectional survey design. The research design involved observation of all of a population, or a representative subset, at one specific point in time and is a quick, efficient and accurate means of assessing information from the population. This was the preferred research mode aimed at finding out if there was a direct correlation between CSR and competitive advantage in the entire banking sector. This research describes the trends in regards to adoption, use and investment of CSR against the performance in the banking sector to bring about competitive advantage. This was be done by analyzing the CSR thematic areas of focus for the different banks and the outcomes achieved through such initiatives.

3.3 Study Population

The target population for study was all the Commercial Banks in Kenya. According to the Central Bank of Kenya records as of 2013, forty three Commercial Banks are operating in Kenya. Since the population was small, sampling was not recommended instead a study of the whole population was undertaken.

3.4 Data Collection

The data that was collected was be quantitative in nature. The study used both primary and secondary data. Primary data was collected through semi-structured questionnaires. The questionnaires provided a degree of standardization and adoption of generalized information. The questioner was split into three sections; Bank profile, CSR strategies employed and Competitive advantage. The questionnaires was administered through drop and pick method and respondents targeted shall be foundation managers, public relations managers or senior management equivalent to these positions. Selected respondents had strategic visibility of the organization and are involved in the day to day running of CSR initiatives thus the preferred choice. One respondent per bank was required. Confidentiality of the respondents was guaranteed through an assurance letter issued with each questioner. Secondary data was obtained from banks strategic plans, CSR reports and Central Bank of Kenya annual report.

3.5 Data Analysis

Data analysis is defined as the whole process which starts immediately after data collection and ends at the point of interpretation and processing of results. The following steps were

followed in analyzing the data collected; data capture, sorting, editing, processing and interpretation of results.

The primary data collected through questionnaires was analyzed using the excel to obtain existing correlations in the data collected. The correlations informed the research on existence or non-existence of a relationship between the banks involvement in CSR activities and the competitive advantage that accrues from this involvement. The findings were then presented using descriptive statistical methods namely tabulation, graphical presentation, percentages and ratios.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the study findings study aimed at identifying if there is a relationship between Corporate Social Responsibility and Competitive advantage amongst commercial banks in Kenya. The analysis has been done by use of descriptive statistics such as percentages, mean scores and standard deviation. The study findings are presented in tabular forms and graphs.

A total of 43 questionnaires were distributed to commercial banks operating in Kenya. 31 commercial banks filled the questionnaire and submitting them to the researcher. The information was collected from foundation managers, public relations manager and marketing managers. The banks that did not respond gave various reasons including competitive sensitivity for information required, out of office on official duty and some banks feared misuse of the information required.

The study managed to collect data from 31 commercial banks accounting for a response rate of 72.09%. This was considered appropriate for the analysis and subsequent drawing of conclusion. According to Mugenda and Mugenda (2003) a response of 50% is sufficient for a study, 60% is good and 70% is excellent for a study.

4.2 Demographic Information

The research established that majority of the commercial banks had been in operation in Kenya for more than 15 years, between 16 and 30 years (38.7%), 31-45 years (22.6%) and

46 years plus (32.2%). The two respondents with less than 15 years operation in Kenya were North African Banks that were recently got license to operate in Kenya. This is shown in table 4.1 below.

Table 4.1 Age of commercial banks in the industry

No of Years operations in Kenya	No of Respondents	Percentage
Less than 15 years	2	6.5%
16-30 years	12	38.7%
31-45 years	7	22.6%
Over 46 Years	10	32.3%
Total	31	100.00%

Source: Research Data

A majority (64.5%) of the respondents were locally established banks that are privately owned with only 12.9% of the respondents having some level of government control and 22.6% of respondents of foreign origin with most strategies stemming from their international head office. All the commercial banks were licensed to operate by the Central Bank of Kenya under the banking Act, Cap 488. The data is illustrated in table 4.2 below.

Table 4.2 Ownership of the Commercial Banks.

	Foreign established with local incorporation	Locally established and Partially government owned	Locally established & Privately owned	Total
No.of respondents	7	4	20	31
Percentage	22.6%	12.9%	64.5%	100%

Source: Research Data

The researcher aimed to establish the number of clients for the different banks as this is a clear indicator of competitive appeal by the commercial banks. The study found that majority of the respondents 51.6% had clients between 500,000- 999,999 followed by 8 respondents having clients below half a million. No respondents had less than 100,000 clients. This is shown in the table 4.3 below.

Table 4.3 Clientele Base of Commercial Banks in Kenya.

	Number of Respondents	Percentage
Less than 100,000	0	0
Between 100,000- 499,999	7	22.6%
Between 500,000- 999,999	16	51.6%
Over 1 Million	8	25.8%
Total	31	100%

Source: Research Data

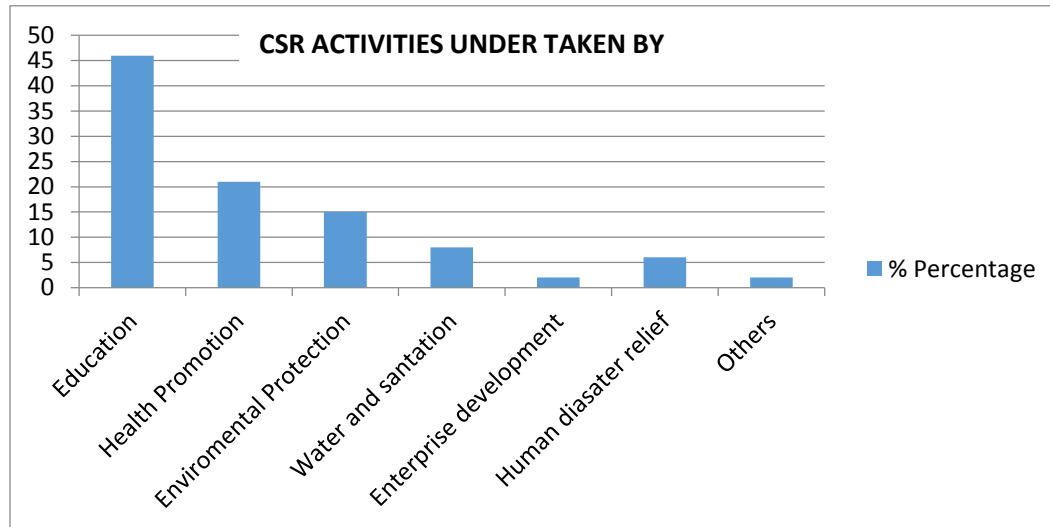
The researcher sought to find out the implementation of CSR amongst the commercial banks operating in Kenya. All 31 respondents who returned their questionnaires had implemented CSR in one form or the other.

4.3 Use of CSR to gain Competitive Advantage by Commercial Banks.

The study sought to establish whether commercial banks participated in CSR, their perceived use of CSR and its importance to their business growth agenda. All the banks unanimously agreed that use of CSR was part of their business strategic pillar. Regarding the CSR activities undertaken by banks, education topped the list with 46% followed by

Health promotion at 21% and Environment protection at 15%. All others were below 10% as illustrated in figure 4.1 below.

Figure 4.1 CSR Activities undertaken by commercial Banks in Kenya.



Source: Research Data

The respondents were also to indicate the extent to which their banks engaged in their preselected activities of Education, Health, Environmental protection, water and sanitation and Human disaster relief to a great extent with means of between 4.937 and 3.819 while enterprise development was adopted to a moderate extent as shown in table 4.4 below

Table 4.4: CSR initiatives undertaken by Commercial banks in Kenya

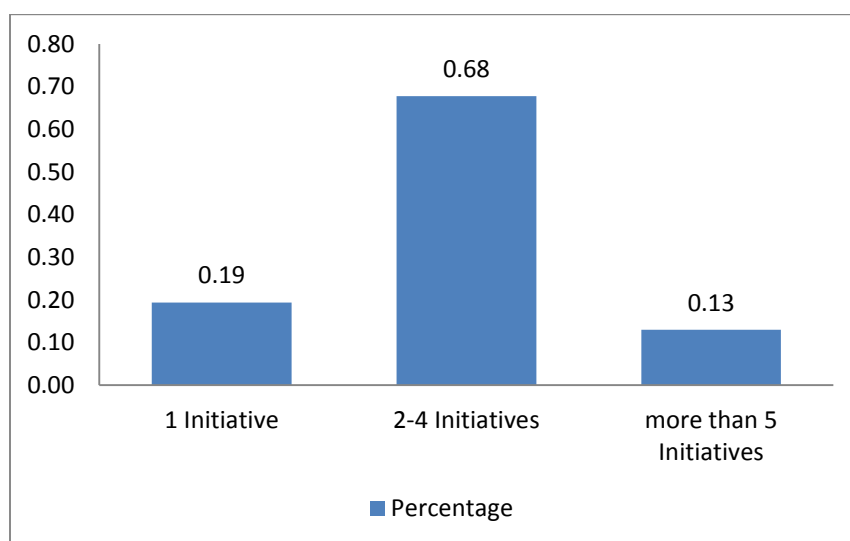
	Mean	Std. Deviation
Education	4.937	0.756
Health Promotion	4.638	0.486
Environmental Protection	4.289	0.368

Water and sanitation	4.217	0.371
Enterprise development	3.398	0.271
Human disaster relief	3.819	0.521

Source: Research Data

The research established that 6 banks accounting for 19% of the population focused on one CSR initiative with majority of the respondents participating in multiple activities majority of whom undertook 2-4 initiatives at 68% as shown in figure 4.2 below.

Figure 4.2 CSR theme initiatives undertaken annually



Source: Research Data

On whether the bank aligned their CSR activities to the overall business strategies, all banks agreed that the selection of CSR activities is aligned. Asked to rate the use of CSR as an important strategic tool to drive business growth, the responded indicated that growth in good will, satisfying shareholders and customers and enhance bank's image were to a great extent important as shown by means 4.964, 4.848 and 4.783 as shown in table

4.5 below. Driving the bank's vision and enhancing bank's activities to meet customer need were also important to a great extent with means of 4.231 and 4.120 respectively as summarized in table 4.5 below.

Table 4.5 Benefits of CSR amongst Commercial Banks

	Mean	Std. Deviation
Gain Goodwill & link bank to community	4.964	1.300
Satisfy shareholders and customers	4.848	1.439
Enhance bank image	4.783	1.183
Drive bank's Vision	4.231	1.501
Enhance bank's activities to meet customer needs	4.120	1.348

Source: Research Data.

In regards to the level of importance of CSR to the different stakeholders of banks the research established that customers, existing and potential Investors and employees to a great extent were of most importance as shown by means of 4.421, 4.239 and 4.120, and moderate importance to government and suppliers with a mean of 3.432 and 3.370 respectively as summarized in table 4.6 below.

Table 4.6: Importance of CSR to different Bank stakeholders

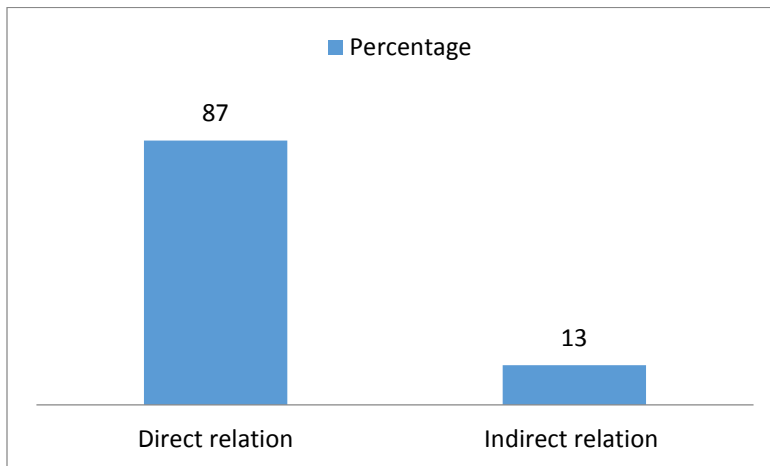
	Mean	Std. Deviation
Customers	4.421	0.370
Existing and potential investors	4.239	0.245
Employees and Management staff	4.120	0.231

Government	3.432	0.486
Suppliers	3.370	0.904

Source: Research Data.

The researcher established that banks made use of CSR to gain competitive advantage. The findings revealed that 29 banks this being 94% of research respondents employed CSR as a competitive tool while only 2 banks this being 6% viewed CSR as purely a contribution to the community. In relation to CSR's contribution to overall profitability, 87% of respondents indicated there is a direct relationship with 13% indicating an indirect relationship to the bottom line as illustrated in the figure 4.2 below.

Figure 4.2 Corporate Social Responsibility impact to business bottom line.



Source: Research Data

In regards to the extent that CSR has influenced different business indicators, recruitment of new customers, new investors and Employee satisfaction were to a great extent impacted with means of 4.991, 4.897 and 4.865. The banks also indicated that brand appeal and entry

into new markets were key to a great extent as well with means of 4.834 and 4.841 respectively as illustrated in table 4.7 below.

Table 4.7: Importance of CSR in relation to business growth indicators.

	Mean	Std. Deviation
New customers	4.991	0.315
Onboarding new Investors	4.897	0.329
Employee satisfaction	4.865	0.405
Brand appeal & association	4.834	0.480
Entry into new markets	4.841	0.521

Source: Research Data

The statement regarding how CSR indicators played a role in enhancing profitability for the bank, all four parameters indicated in the questionnaires had to a great extent high impact to the business. The researcher noted from several annual report that banks actively undertook CSR with the aim of ensuring that they complied with the corporate governance act which is not mandatory but a key indicator of being a responsible organization. From the respondents, it was note that Legal issues were noted highly amongst respondents as illustrated in the table 4.8 below.

Table: 4.8 Extent to which CSR indicators play to enhance profitability

	Mean	Std. Deviation
Legal issues	4.996	0.131
Ethical issues	4.967	0.312

Economic Issues	4.964	0.281
Social issues	4.912	0.284

Source: Research Data

4.4 Discussion of Findings.

This study set to achieve two objectives which were to determine the kind of CSR initiatives undertaken by Commercial Banks in Kenya and establish if banks that are involved in CSR enjoy competitive advantage in Kenya. From the research findings presented above, the study established that all Commercial Banks did indeed participate in one form of CSR initiative. Top three CSR initiatives undertaken by banks were Education programs, Health programs and Environmental protection. The extent of bank's participation in CSR events also was based on the three areas which had the highest mean scores. The three initiatives were also aligned to the business strategies with the aim of bringing up a healthy working nation thus empowered individuals to drive business growth for the banks. Each bank is looking into a differentiated strategy with the aim of creating the perception of importance and uniqueness. This is one of the strategies recommended by Porter (1985) in regards to the competitive advantage generic strategies model. Different banks are looking into use of CSR in different ways in order to stand out from the crowd.

The findings of this research established that CSR was indeed useful to drive the business agenda and of great importance to key stakeholders to the business i.e. Shareholders, Customers and employees. The findings are consistent with Batson, Ahmad and Tsang (2003) in that for any business to be sustainable there is need to manage risk and brand as

these are key drivers for consideration for the different stakeholders. Overall well-being and acceptance in society is vital for business survival and therefore a major consideration by the stakeholders.

The study elaborated on the relationship between CSR and competitive advantage with 87% of the respondents indicating that CSR has a direct impact to the business bottom line and a very critical component to driving in new customers, investors and keeping employees motivated and satisfied. These findings are consistent with those of Poter and Karmer (2006) who elaborated the interdependence between corporate and society with direct impact to community. It came out very strong that CSR indicators are very key in driving profitability in that all four indicators presented to respondents scored very highly. CSR not only drives appeal to bank by different stakeholders but also enables the business drive growth from new customers, investors and also opens up the bank to new business ventures in new markets.

The findings of the study indicate a high level of risk for businesses that do not participate in any form of CSR as community good will is lacking and profitability of the business may be compromised as result. These findings are consistent with those of Zadek (2005) who established that if CSR is rooted it is not difficult to meet market expectations such as dealing with corruption, human rights, environmental management in supply chain etc.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction.

This chapter provides a summary of the research findings, conclusions and recommendation as observed by researcher. It also points the limitations of the study and provides suggestions for future research. The conclusion and recommendations that are drawn are aimed at achieving the research objectives which were to determine the kind of CSR initiatives undertaken by commercial banks in Kenya and establish if banks that are involved in CSR enjoy competitive advantage in Kenya.

5.2 Summary of findings.

The study found out that Commercial Banks in Kenya invest in corporate social responsibility as a competitive tool as it demonstrates goodwill to the community of operation, it is a vital component to stakeholders including not only existing but also potential investors and CSR has a direct relations to the overall bottom-line of the business.

The study established that most banks participated in one or more CSR initiatives with most of them skewed to education, health and environmental protection. Majority of the respondents participated in multiple initiatives with the aim of reaching out and making a difference and eventually reaping the benefits from a business stand point. This seemed to be a trend with over 68% of the respondents taking up 2-4 initiatives. More than five initiatives seemed to be stretched with only 4 respondents indicating their participation.

From the study the use of CSR as a strategic pillar by banks was established with all respondents indicating their participation and uptake therefore addressing the first objective of the study that was aimed at determining the kind of CSR initiatives undertaken by commercial banks in Kenya.

The second aim of the study was to establish whether banks that were involved in CSR enjoyed some level of competitive advantage. From the findings of the research, it is noted that to a great extent banks do indeed enjoy competitive and sustainable advantage through their participation in CSR. The initiatives not only impactful the to the business in regards to gaining goodwill which is vital for business to operate within the community but it also is critical to shareholders who invest time and money to the business and customers who eventually purchase products and services and generate revenue to the banks. In a competitive sector such as the banking sector in Kenya, image is of paramount importance, not only to the external parties such as shareholders, customers, investors, government bodies and suppliers but also to the internal parties who are the employees and management of the bank. The employees run the business and it is important that they feel a sense of belonging within the community and believe in their respective banks as a whole to help grow and sustain the community in which they operate.

The researcher also noted that the direct impact that all respondents did indicate that to some extent CSR has a direct or indirect contribution to the bottom line. No respondents indicated lack of some level of relationship thus drawing the conclusion that indeed CSR does play a role in driving business competitive advantage. This also was very clear when

respondents indicated to a great extent the importance of CSR to the different business growth indicators, whether it was onboarding new clients, investors, improved employee satisfaction etc., the means were above average and this shows the direct impact CSR has to the overall business agenda of sustained growth and competitive edge.

5.3 Conclusion

A well-crafted and executed strategy of any business needs to have a human touch of care, consideration and appreciation for the members of society the organization provides goods or services. Like any member of the society, an organization has a role to play especially so with the role of government continuously shrinking while the needs of the society are continuously growing. This tends to open up opportunities for different organizations to take their rightful place in driving uptake of different CSR initiatives and standing tall amongst competitors and peers.

The results of the study indicate that banks have adopted CSR as a strategic pillar to grow and sustain business growth thus sustainable competitive advantage. CSR is not only an avenue for showing the softer side of any business but also offers opportunity to build brand appeal and entice external parties to come on board in order to drive business growth. The initiatives also offer employees an opportunity to be part of change in regards to improving the wellbeing of the people in society and the overall protection of the environment in which the business operating in. The two vital players to any business- internal staff and external investors, customers, shareholders, suppliers, government bodies

are critical components to drive business appeal but also has a direct impact to the overall growth and sustainability of the business.

The use of CSR was not only an immediate impact to the overall bottom-line of the bank but also has future benefit as they were reaping the seeds for future growth and sustenance. The use of CSR has helped enhance the brand image of the banks with direct impact to overall bank performances year on year.

5.4 Recommendations

This study makes several recommendations for policy implementation. Foremost, the study has established that commercial banks adopt various CSR initiatives; it is therefore recommended that the adoption of the initiatives be encouraged and reinforced in order to drive competitive advantage and present the bank as an important and beneficial member of society.

Secondly, the study found out that CSR is an important component to different stakeholders for Commercial Banks and thus a selected and often highlighted strategic pillar to draw in and retain different members of the society. It is therefore important for policy makers to look into incorporating of stakeholders in driving the CSR agenda, this not only builds belief in the brand but also sustenance as the stakeholders feel part of the team that is aiming to make a lasting difference in the community they live and work in.

Lastly, the study found out that commercial banks have noted the impact CSR has on overall business growth indicators and as such there is need to further look into onboarding more resources and funding to drive brand appeal and overall product and service uptake. It is also noted that competitor actions in this areas be monitored on a continuous basis to avoid replication thus stand out in the cut throat competitive landscape.

5.5 Limitations of the study

The research findings noted that all Commercial Banks that responded to the request did participate in some level of CSR and indicated that this was a vital component to them achieving their overall business growth. There would have been an opportunity to engage a bank that did not actively participate in CSR initiatives to see if the indicated trend does exist in that the bank would have diminishing business growth and sustainability.

The other limitation of this study was the population of the study. The target population was the Commercial Banks licensed by Central Bank of Kenya. This was by far a large group thus time consuming in regards to dropping questionnaires and eventual follow up. The bureaucracy in the different banks also proved to be a challenge with the need for continuous follow up by the researcher.

5.6 Suggestions for further research.

The study recommends that further research be done to establish if from a management stand point it is best to focus on fewer CSR initiatives and really drive brand appeal and uptake or if spreading the investment in community on several initiatives is beneficial and

sustainable in the long run to drive business growth. The study has established that the key initiatives undertaken by banks are education, health and environmental protection. It would be beneficial to understand why the trend and what impact the initiatives will have on overall business agenda of growth and sustainability.

To the researchers, it is recommended that similar study be conducted using a specific case study rather than industry survey. This is because the results may not be generalized given that each organization faces different challenges in selecting and executing their CSR initiatives. Case study would also provide more detailed information describing strategy selection criteria by a single organization.

The study confined itself to all the Commercial Banks operating in Kenya and the findings not be applicable in other sectors as a result of uniqueness of the banks competitive landscape. It is therefore recommended that the study is replicated in other service sectors to establish the relationship between CSR and competitive advantage.

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APPENDIX I: LICENSED COMMERCIAL BANKS OPERATING IN KENYA

Commercial banks are licensed and regulated pursuant to the provisions of the Banking Act and regulators and Prudential Guidelines issued thereunder. Below is the published list of registered commercial banks for the year 2013.

BANK	BANK
1. African Bank Corporation Ltd	23. Fina Bank Ltd
2. Bank of Africa Kenya Ltd	24. Giro Commercial Bank Ltd
3. Bank of Baroda (K) Ltd	25. Guardian Bank Ltd
4. Bank of India	26. Habib Bank A.G Zurich
5. Barclays Bank of Kenya Ltd	27. Habib Bank Ltd
6. CFC Stanbic Bank Ltd	28. Imperial Bank Ltd
7. Charterhouse Bank Ltd	29. I&M Bank Ltd
8. Chase Bank (K) Ltd	30. Kenya Commercial Bank Ltd
9. Citibank N.A. Kenya	31. KRep Bank Ltd
10. City Finance Bank Ltd	32. Middle East Bank (K) Ltd
11. Commercial Bank of Africa Ltd	33. National Bank of Kenya Ltd
12. Consolidated Bank of Kenya Ltd	34. NIC Bank Ltd
13. Co-operative Bank of Kenya Ltd	35. Oriental Commercial Bank Ltd
14. Credit Bank Ltd	36. Paramount Universal Bank Ltd
15. Development Bank of Kenya Ltd	37. Prime Bank Ltd
16. Diamond Trust Bank (K) Ltd	38. Southern Credit Bank Corporation
17. Dubai Bank Kenya Ltd	39. Standard Chartered Bank
18. Eco Bank Kenya Ltd	40. Tran-National Bank Ltd
19. Equatorial Commercial Bank Ltd	41. UBA Kenya Bank Ltd
20. Equity Bank Ltd	42. Victoria Commercial Bank Ltd
21. Family Bank	43. First Community Bank Ltd
22. Fidelity Commercial Bank Ltd	

Source: Central Bank of Kenya website (2013). www.centralbank.go.ke

APPENDIX II. INTRODUCTION LETTER

Esther N. Chege
University of Nairobi
School of Business

August, 2013

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on 'Corporate Social Responsibility and Competitive advantage of Commercial banks in Kenya'

You have been selected to form part of the study. This is to kindly request you to assist me to collect the data by filling out the accompanying questionnaire, which I will collect from you.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information collected will be treated with strict confidence. Your name will at no time appear in the report. A copy of the final paper will be availed to you on request.

Your cooperation will be highly appreciated.

Thank you in advance.

Yours faithfully,
ESTHER N. CHEGE
MBA STUDENT.
UNIVERSITY OF NAIROBI

APPENDIX III: RESEARCH QUESTIONNAIRE

Please fill in all parts as sincerely as possible by putting a tick on one of the options given where applicable. For those that require your opinion, please use the space provided.

SECTION A: BANK PROFILE

1. Name of Bank.....
2. Designation of respondent.....
3. Number of years since incorporation (kindly tick one of the following)
 - a. Less than 15 years ☐
 - b. Between 16-30 years ☐
 - c. Between 31-45 years ☐
 - d. Over 50 years. ☐
4. Tick the category that best describes the ownership structure of your bank
 - a. Foreign owned and not locally incorporated ☐
 - b. Foreign owned but locally incorporated ☐
 - c. Partially government owned ☐
 - d. Wholly locally owned ☐
5. What is your current clientele base?
 - a. Less than 100,000 Clients ☐
 - b. Between 100,001- 499,999 Clients ☐
 - c. Between 500,000-999,999 Clients ☐
 - d. Over 1 million Clients ☐
6. Does your bank undertake CSR (Corporate Social Responsibility) initiatives?
Yes ☐ No ☐

SECTION B: USE OF CSR IN STRATEGY FORMULATION

7. Does the bank you work for use CSR as a component in its strategic pillars?
Yes ☐ No ☐
8. What CSR activities does the bank you work for undertake? (You can tick more than one)
 - a. Education ☐
 - b. Health Promotion ☐
 - c. Environmental Protection ☐
 - d. Community development ☐
 - e. Water and sanitation ☐
 - f. Enterprise development ☐
 - g. Human disaster relief ☐

h. Any other (specify).....

9. To what extent does your bank engage in the CSR Initiatives?

1= Not at all 2= little extent 3= Moderate extent 4= Great extent

5= Very great extent

CSR Initiatives	1	2	3	4	5
Education					
Health Promotion					
Environmental protection					
Community development.					
Water and sanitation					
Enterprise development					
Human disaster relief					

10. How many CSR Initiatives does your bank focus on per year?

a. 1 initiative []

b. 2-4 initiatives []

c. More than 5 initiatives []

11. Are the CSR strategies implemented in your bank aligned to the overall business strategy (if no, kindly elaborate on how the strategies are formulated)?

Yes [] No []

.....

.....

12. To what extent do you agree with the following statements about the use of CSR?

1= strongly disagree 2= Disagree 3= Neutral 4= Agree 5= strongly agree.

Importance of CSR	1	2	3	4	5
Helps the bank satisfy shareholders and customers					
Helps gain goodwill and link the bank to the community					
Is a key component to achieving the bank's set vision					
Is used to enhance bank's activities to meet customer needs					
Is used to enhance bank's image					

13. To what extent is CSR important to the following stakeholders of your bank?

1= Very low 2= low 3=Average 4=High 5=Very High

Important of CSR to	1	2	3	4	5
Employees & Management staff					
Suppliers					
Customers					
Existing and potential Investors.					

PART C: COMPETITIVE ADVANTAGE AND CSR

14. Does use of CSR play any role in gaining competitive advantage with regards to your bank?

Yes []

No []

15. To what extent does the bank believe that CSR is a key component to overall profitability?

a. No relationship at all []

b. Direct relationship to bottom line []

c. Indirect relationship to bottom line []

16. To what extent has CSR influenced the performance of your bank in relations to the following indicators?

1= Very low 2= low 3=Average 4=High 5=Very High

Indicators	1	2	3	4	5
Recruitment of new customers					
New investors both local and foreign					
Employee Satisfaction					
Brand appeal and association.					
Entry into new markets					
Accomplishment of strategic plans					

17. To what extent have CSR indicators played to enhance profitability in your bank?

1= Not at all 2= Less Extent 3= Moderate Extent 4= Great Extent

5= Very great extent.

	1	2	3	4	5
Social Issues					
Legal Issues					
Ethical Issues					
Economic Issues					

18. In your opinion, what do you think can be done to bring about full realization of benefits that can be derived from implementing CSR initiatives?

.....

Thank you for your participation and Time.

God Bless.