EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON THE
PERFORMANCE OF FIRMS WITHIN THE FINANCIAL
SECTOR: A CASE STUDY OF POSTBANK

BY

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MAY, 2012
DECLARATION

I declare that this research is my original work and has not been presented for examination to any university or an institution of higher learning

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DEDICATION

To my mother Paulina, father the late Hon. John Paul Titi, my siblings Kibet, Jelimo, Kimoi, Kiprotich, Jeptarus and Kiprop.

To my wife Rael and children Jepkosgei, Kipchumba, Kipkoech and Chemutai.
ACKNOWLEDGEMENT

Thanks be to the almighty God for granting me the necessary strength and effort that has enabled me come this far.

I express my gratitude and heartily appreciation to University supervisors Mr. Shadrack Bett and Robert D. Nzulwa whose guidance at all the stages has made it possible to complete this research project. I am also thankful to Samuel Kipsang for the editing assistance provided.

Lastly, I feel indebted to all that I have not mentioned who contributed in any way towards the completion of the research project.
ABSTRACT

Business organizations are faced with the reality of the compelling need to show commitment towards Corporate Social Responsibility. Whereas organizations are participating in CSR activities, there is an emerging thought where firms are asking questions about business sustainability of these activities. It is with this background that this research investigated the effects of corporate social responsibility on the performance of firms operating within the financial sector. Postbank which is the only pure savings bank in the country was selected for purpose of the study. The study determined the extent to which environmental issues, customer concerns, employee concerns, philanthropic activities and products and services influences the performance of the Bank. It is important to note that no such study had been done in the Bank and it is therefore deemed that its findings provide input for policy improvement as well as enhance the existing knowledge relating to the area of study. The population of the study comprised 300 staff of Postbank from specific departments and working within the CBD area of Nairobi. A sample of 20% of the population was obtained using stratified random sampling. Questionnaires were used to source data. Other sources were journals, company publications, reports, circulars, text books and information from websites in the internet. The data collected was analyzed using descriptive statistical methods including measures of central tendencies and dispersion to explain the population distribution. Findings indicated that CSR activities have a higher effect on the performance of the bank as performance focused on image, profitability, customer satisfaction, employee satisfaction, costs and risk profile of the organization. Given that the market place has become competitive and players in the industry compete for customers with an intention of increasing the deposits level, the findings indicated that CSR may be considered a differentiation strategy by the bank. Based on the findings the study recommends that the bank should participate more on corporate social responsibility activities while at the same time using it as a platform for marketing its products. The study advocates for CSR to be accommodated as a differentiation strategy with the objective of making the organization attain increased performance. The study confined itself to Kenya Post Office Savings Bank which is a purely savings bank and is not a commercial bank. It may therefore not be fully representative of the financial sector and as such it is proposed that a study of the whole industry in Kenya comprising over 45 banks be undertaken.
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<tr>
<td>CSR-</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>CSP-</td>
<td>Corporate Social Performance</td>
</tr>
<tr>
<td>CFP-</td>
<td>Corporate Financial Performance</td>
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<tr>
<td>GDP-</td>
<td>Gross Domestic Product</td>
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<td>SRB-</td>
<td>Sustainable Responsible Business</td>
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<tr>
<td>CBK-</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>KPOSB-</td>
<td>Kenya Post Office Savings Bank</td>
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</table>
OPERATIONAL DEFINITION OF TERMS

CSR

Is about how companies manage the business processes to produce an overall positive impact on society.

Performance

Accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. Performance can be classified into financial or non-financial performance.

Business case for CSR

This is a set of arguments detailing the potential benefits gained by firms if they invest in corporate social responsibility. Benefits include enhanced corporate image and increased staff loyalty.
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate social responsibility (CSR), also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business, is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. 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 the general public. The contemporary view is that business, as important and influential members of society, are responsible to help maintain and improve the society's overall welfare, and that society cannot tolerate profits or existence of business that do not serve it. Majority of research on corporate social responsibility roams around financial performance, consumer behavior and its effects on environment for instance Lin et al., (2010), Scholtens, (2008), Renneboog et al. (2008) and Arx and Ziegler (2008) have studied relationship between CSR and corporate financial performance. Several studies have however supported the positive effects of CSR on consumer behavior including Shea, (2010) and Ali et al. (2010). Further the strategic significance of corporate social responsibility for corporate success has been emphasized (Heslin and Achoa 2008).

In this research, the primary subject will be the 'business case' for corporate social responsibility (CSR). The business case refers to the underlying arguments or rationales
supporting or documenting why the business community should accept and advance the CSR ‘cause’. The business case is concerned with the primary question: What do the business community and organizations get out of CSR? That is, how do they benefit tangibly from engaging in CSR policies, activities and practices? The business case refers to the bottom-line financial and other reasons for businesses pursuing CSR strategies and policies.

The objective of the research will be to examine whether CSR participation by a firm affects its performance. Corporate social responsibility is not a new concept as the idea originated around the turn of the 20th century, however researchers started to focus their efforts on the topic during the 1960s and 1970s. Over the decades, the concept of corporate social responsibility (CSR) has continued to grow in importance and significance. It has been the subject of considerable debate, commentary, theory building and research. In spite of the ongoing deliberations as to what it means and what it embraces, it has developed and evolved in both academic as well as practitioner communities worldwide (Clark 2000:366)

In essence, then, the quest for the business case for CSR has been developing for several decades. In recent times, the search for the ‘business case’ for CSR has accelerated and has come to mean the establishment of the ‘business’ justification and rationale, that is, the specific benefits to businesses in an economic and financial sense that would flow from CSR activities and initiatives. Questions such as the following have framed this search: Can a firm really do well by being good? Is there a return on investment to CSR? What are the bottom-line benefits of socially responsible corporate performance? It has been argued that, in business practitioner terms, a ‘business case’ is ‘a pitch for investment in a project or initiative that promises to yield a suitably significant return to justify the expenditure’. That is, can companies perform better financially by addressing
both their core business operations and their responsibilities to the broader society (Kurucz et al. 2008)?

The chief executive officers and corporate boards as guardians of their companies' financial welfare and who ultimately bear responsibility for the impact of CSR on the bottom line, need to justify at all levels of the organization that CSR is consistent with the firm's strategies and that it is financially sustainable (O’Sullivan 2006). The interest of Government departments is to see whether companies can deliver social and environmental benefits more cost effectively than they can through regulatory approaches (Zadek 2000). It may also be argued that average consumers care as well, as they want to pass on a better world to their children, and many want their purchasing to reflect their values. Social responsibility refers to the obligations of the organization to protect and/or enhance the society in which it operates. It is considered an ethical behavior at an organizational level.

A survey carried out by the CBK on the Banking sector indicated an increased focus on corporate social responsibility by the financial institutions and further suggested that an institution’s operating environment is a significant determinant of that institution’s long-term sustainability. Risks emanating from the operating environment such as political instability, disruption or termination of customers’ businesses would adversely affect institutions. An institution’s business activities also have positive or negative effects on its operating environment and society in general. In recognition of this mutual relationship, institutions are obliged to exercise corporate social responsibility in their activities in order to ensure their business remains sustainable and viable in their social and environmental context. Out of the 43 respondents in the survey, 14% of respondents identified sustainability risk as an additional risk facing financial institutions, and which
should be catered for in the risk management guidelines issued by CBK in the year 2005

Performance can be classified into financial performance and non-financial performance
(Venkatraman and Ramanujam 1986). The financial performance approach examines
indicators such as sales growth, profit rate, return on investment, return on sales, return
on equity, and earnings per share, whereas the non-financial performance approach
focuses on market share, new product introduction, product quality, marketing
effectiveness, and technological efficiency. Most studies have focused on financial
performance, but there are many important parts that have been left out from the
discussions. This research will concentrate on effects of CSR activities on firm’s
performance. It will focus on the 8 branches of Postbank situated within the Central
Business District (CBD) of Nairobi. The estimated employee population in the area of
interest is 300. The bank has an establishment of 800 employees (Human Resources
records, Postbank December, 2011)

1.1.1 The Kenya Post Office Savings Bank (KPOSB)
The Kenya Post Office Savings Bank (Postbank) was established in 1910 and is
primarily engaged in the mobilization of savings for national development. It operates
under the Kenya Post Office Savings Bank Act Cap 493B. The bank’s participation in
Corporate Social Responsibility programs reflects her commitment to businesses that
contribute to sustainable economic development by working with local communities
and the society at large, to improve their lives. Postbank also operates under
performance contract guidelines and this has now been entrenched through Balanced
Score Card performance management system.
1.2 Statement of the problem

CSR as examined from a resource-based view of the firm’s perspective suggests that it can constitute a source of competitive advantage, especially in high-growth industries Russo and Fouts (1997) and can be viewed as a differentiation strategy McWilliams and Siegel (2001). However several studies have focused on financial performance where data has mostly been derived from the financial statements. These distortions and manipulations are clearly manifested in the financial scandal of Enron, WorldCom and Parmalat. Lawrence and Glueck (1987) observed that distortion could affect the financial variables performance. These studies could have therefore ignored the distortions and manipulations that go with such reports. Previous attempts to measure firm performance have ignored the extent of the impact of some very important variables like production effectiveness, efficiency, customer education, employee satisfaction, research and development, environmental concerns and philanthropic activities. This study will focus most on the non-financial performance aspect. Although studies have been carried out previously linking CSR and performance, the same have produced varied results, some positive while others indicating negative relationship between the variables. The explanation could be on the different approaches adopted.

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. It is the responsibility of business managers to ensure that the firm’s bottom-line improves. It is not clear yet whether expenditure on CSR should be perceived as a reduction of the profitability or are expenses that lead to better performance. This is the basis of this research and also the reason that no study has been done on the effect of corporate social responsibility on performance in the financial
services sector more so none has been done in post bank and hence the need to carryout one that is intended to help bridge this gap and provide some insight to strategic managers as regard the subject.

1.3 Objectives of the study

1.3.1 General objectives.

The study investigated on the effects of corporate social responsibility on performance of Postbank.

1.3.2 Specific objectives

1. To find out how the firm’s participation on environmental activities influences the performance of Postbank

2. To determine the extent to which employee policies and practices influence the performance of the Bank

3. To examine the extent to which customers concern in terms of product and services offers influence the performance of the Bank.


5. To examine the extent to which philanthropic activities influence the performance of Postbank.

1.4 The research questions

1. To what extent does the Bank’s participation on environmental issues influence performance?

2. To what extent do employee policies and practices in the firm influence performance?
3. Does customer’s concern related to product and services offers significantly influence Postbank’s performance?

4. To what extent does customer education influence the Bank’s performance?

5. Does the Bank’s philanthropic activities influence performance?

1.5 The significance of the study

The study will highlight the benefits which an organization enjoys as a result of her participation in CSR activities. Further the investigation will demonstrate the extent of CSR engagement in the organization and highlight any policy gaps or management actions requiring further improvements. It will provide an insight and the basis on which strategic decisions can be made.

Finally, it is expected that the research findings will enhance the existing knowledge base with respect to efforts already employed by other researchers relating to the subject under investigation.

1.6 Limitation of the study

The respondents were not willing to give all the information that was required for the purposes of analyzing the findings of the study however the researcher overcame this limitation by information clarification on the purposes and intent of the study being of academic purposes only; the management was not willing to disclose company information classified as confidential and it took the researcher time to explain to them the intention of the study. Some of the respondents were also unwilling to respond to the questionnaire due to fear that the information would be used against them by management for appraisal purposes. The researcher did overcome this limitation by explaining to the respondents the purpose of this study which is for academic purposes.
only. The study confined itself to employees of Postbank and future studies may consider employees of other institutions within the financial sector.

1.7 The scope of the study

The study concentrated on the 8 branches of Postbank situated within the Central Business District (CBD) of Nairobi. The estimated employee population in the area of interest was 300. The bank has an establishment of 800 employees. The Bank has a customer base of one million spread across the country's 95 branches and over 400 outlets. Further the researcher relied on the questionnaire findings, company reports, organization’s performance contract report, corporate social responsibility policy, circulars and relevant journals.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study will examine the effects of corporate social responsibility on the performance of financial institutions. The chapter reviews relevant literature regarding key aspects related to variables identified in the study. The financial institution chosen for purpose of this research will be Postbank. This part considers previous research findings, various papers presented and relevant publications touching on the subject.

2.2 Past studies/Main Review

2.2.1 Theoretical Review

The theoretical literature on the determinants of strategic CSR decisions focuses on various aspects of a firm’s CSR strategy. A large number of articles written by among others Baron (2007, 2008a, b), Graff Zivin and Small (2005), Becchetti et al. (2005 a and b), Manasakis et al. (2007)) have considered CSR as a product differentiation strategy.

Other approaches, for instance Bagnoli and Watts (2003) or Heyes and Maxwell (2004), consider CSR as a private provision of a public good and analyze interactions between firms, NGOs and regulators. Similarly, Cespa and Cestone (2008) formalize CSR decision as stakeholder protection when investing in uncertain technologies.

These models on the determinants of strategic CSR adoption are compatible with the Porter hypothesis. Each model provides a very insightful analysis of a specific dimension of a firm’s CSR strategy and its impact on equilibrium prices, profits and welfare. However, the definition of CSR practices varies from one model to another,
without explicitly decomposing CSR strategies into multiple dimensions such as environment, human resources and business behaviors.

As pointed out by Benabou and Tirole (2010), the different dimensions of CSR need to be considered, since firms can do well in some dimensions and poorly on others.

There is a considerable empirical literature on the impact of strategic CSR decisions on firm performance. However, there is no consensus on the link between CSR and firm performance and on the empirical validity of the Porter hypothesis (Margolis et al. 2007; Forget, 2010). Recent research points at numerous biases and problems of previous work by Elsayed and Paton, 2005 or McWilliams and Siegel, 2000, among which are; model misspecification (endogeneity), omitted variables in the determinants of profitability, limited data (small samples, old periods), cross-sectional analysis invalid in the presence of significant firm heterogeneity, problems of measurement of CSR, wide diversity of measures used to assess financial performance. Another problem also lies in the direction and mechanisms of causation. Whether corporate social responsibility would lead to superior firm performance or not, or whether financial performance would rather be a necessary condition for corporate social responsibility is still a major stake to be investigated.

The absence of consensus on the links between corporate social responsibility and intangible assets in general and firm performance suggests that specific combination of firm policies are likely to lead to superior corporate performance. During the 1990s, this complementarity between different managerial practices has proven a useful explanation of the Solow paradox, whereby "you can see the computer age everywhere but in the productivity statistics" (Solow, 1987).several researchers have shown that only those firms that have adopted both computerization and complementary innovative
human resources management practices e.g. teamwork, multi-tasking, quality circles etc. did enjoy superior performance (Ichniowski and Shaw 2003; Boucekkine and Crifo, 2008).

By analogy, the apparently ambiguous link between CSR and firm performance could presumably be explained by taking into account the complementarity between the multi-dimensional facets of corporate social responsibility. Paton and Elsayed (2005) and Baron et al. (2008) propose an estimation of the links between CSR and performance relying on dynamic estimation techniques. However, they do not analyze how the complementarity between the different dimensions of CSR activities affects this relationship.

Many reasons in the literature are invoked to explain the prevalence of CSR strategies namely; shrinking role of governments, society's demands for greater disclosure and increased consumers' interest in CSR, growing investor pressure, competition on labour markets for competent and motivated employees, increasing risks associated with unethical behaviors, importance of taking into account relationships with suppliers, external pressure from the civil society etc.

CSR strategies would in fact allow firms to maximize value and to minimize risk in the long run, to respond to increased competitive pressure and market differentiation, and such strategies would more generally allow taking into account the growing demands of their stakeholders namely; customers, consumers, employees, savers etc.

According to Benabou and Tirole (2010), these arguments capture three alternative visions of CSR. In the first vision CSR would be a 'win-win' strategy whereby CSR would make a firm profitable. This vision is also known as the 'Porter hypothesis' or 'doing well by doing good' (Porter and Kramer, 2002).
In the second vision, CSR would be equivalent to delegated philanthropy, the firm being a channel for the expression of citizen values. Under both vision 1 and 2, profit maximization and CSR are consistent. The third vision interprets CSR as insider-initiated corporate philanthropy, not motivated by stakeholders' demand but rather reflecting management's own desire to engage in philanthropy. In this case, profit is then not maximized. Here, we focus on strategic CSR, which is on CSR as a strategic decision designed to improve firm performance and examine which combinations of CSR practices most likely increase profitability.

Although the concept has been developing since the early 1970s, there is no single, commonly accepted definition of Corporate Social Responsibility (CSR). There are different perceptions of the concept among the private sector, governments and civil society organizations. Depending on the perspective, CSR may cover the following areas:

A company running its business responsibly in relation to internal stakeholders i.e. shareholders, employees, customers and suppliers.

The role of business in relationship to the state, locally and nationally, as well as to inter-state institutions or standards and Business performance as a responsible member of the society in which it operates and the global community.

The first perspective includes ensuring good corporate governance, product responsibility, employment conditions, workers rights, training and education. The second includes corporate compliance with relevant legislation, and the company's responsibility as a taxpayer, ensuring that the state can function effectively. The third perspective is multi-layered and may involve the company's relations with the people and environment in the communities in which it operates, and those to which it exports.
Too often, attaining CSR is understood from the perspective of business generosity to community projects and charitable donations, but this fails to capture the most valuable contributions that a company has to make. (Reyes 2002).

The drivers of CSR are the mix of incentives and risks directed at companies to improve standards. These drivers are market-based, usually beginning when a firm anticipates or responds to a risk associated with the social, labor, or environmental impact of a specific business practice. They are listed in the Table below;

**Table 2.1: Drivers of CSR**

<table>
<thead>
<tr>
<th>Economic Drivers</th>
<th>Social Drivers</th>
<th>Political Drivers</th>
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<tbody>
<tr>
<td>i. company</td>
<td>i. Pressure from NGO/</td>
<td>i. Improved standing with</td>
</tr>
<tr>
<td>image/reputation</td>
<td>Increased reputation</td>
<td>Government.</td>
</tr>
<tr>
<td>ii. Improved risk management</td>
<td>ii. License to operate.</td>
<td>ii. Legal/regulatory</td>
</tr>
<tr>
<td>iii. Competitive advantage</td>
<td>iii. Pressure from local</td>
<td>iii. License to operate</td>
</tr>
<tr>
<td>iv. pressure from business partners</td>
<td>iv. Research</td>
<td></td>
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<tr>
<td>v. pressure from consumers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi. pressure from investors</td>
<td></td>
<td></td>
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<tr>
<td>vii. competitiveness</td>
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*Source: PIOTR MAZURKIEWICZ (2003)*
2.2.2 Effect of CSR on employee performance

Research suggests that companies may receive external benefits from implementing CSR policies. Field based and laboratory studies have found that CSR is linked to more favorable corporate evaluations, increased purchase behavior, higher customer satisfaction and market value of a firm, all of which is believed to translate into increased profitability for the corporation.

There is also some evidence that CSR is beneficial because, as with customers, CSR improves employees’ perceptions of the company. When a company has CSR initiatives employees are more proud of and committed to the organization. This is because our personal identities are partly tied up in the companies that we work for. If my company is saving the world, I am too, so my association with the company reflects positively on me and makes me feel good about the work I do for the company.

Data from Centre for Creative Leadership (CCL) World Leadership Study also support this finding that employees’ perceptions of their organizations, concern for community and environment is linked to their level of organizational commitment. Even after controlling for a whole host of relevant variables, perceptions of CSR make a unique and positive contribution to overall commitment. That is, the higher an employee rates their organization’s corporate citizenship, the more committed they are to the organization. Organizational commitment has been linked to favorable outcomes for companies including increased job satisfaction, reduced intentions to turnover, and increased job involvement.
2.2.3 Effects of customer concerns/education on performance

Number of studies has investigated the effects of CSR on consumer purchase intentions, but the results are conflicting with some studies which suggest positive effects of CSR activities on consumer attitude and hence on consumer purchase intentions, while others stating no effects of CSR on consumer purchase intentions (for example Berger et al., 1999; Holmes and Kilbane, 1993; Mohr et al., 2001). McWilliams and Siegel (2000) noted no association between CSR and corporate financial performance. There is no doubt that better financial performance is the result of higher consumer purchase intention and consumer loyalty.

What motivates consumers to become more loyal to an organization? It is important to investigate and understand additional factor that can be combined with CSR actions to influence consumer purchase intentions and afterwards gain consumer retention/loyalty. Product/service quality and consumer satisfaction have been found useful variable along with CSR activities to shape favorable consumer behavior. Consumer satisfaction attained from product/serviced quality is an important tool for retaining consumers. Some studies have considered price as an important variable along with CSR actions to study consumer behavior (Webb and Deborah, 2005). However price alone is not a comprehensive representative of determinants that satisfy consumers.

Service delivery can be a source of significant differentiation between call centers of various financial institutions (TARP, 1997). Each service interaction forms the basis of consumer’s perceptions of the overall quality of an organization. How well a business is able to manage and implement the service delivery process has a direct effect on retention of existing clients, and can have a significant impact on acquiring new
business. The result is that satisfaction is based on how well an institution meets and exceeds a customer's expectations in every interaction. There are many aspects of an institution's operations that affect the customer experience. The service delivery process is influenced by quality of personnel, information technology, internal processes, human resource practices, and even an institution's own change orientation.

Consumer education is the process of gaining knowledge and skills to manage personal resources and to participate in decisions that affect individual well-being and the public good. The outcome of the consumer education process is the development of consumers' skills, attitudes, knowledge and understanding of the financial sector and its products and services so that they are able to use consumer information effectively. Consumer education empowers consumers with knowledge and skills to enable them to make informed decisions about their finances and lifestyles.

Social awareness and education has created the role among corporate stakeholders to work collectively to pressure corporations that are dynamic. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly. NGO'S are also taking an increasing role, leveraging the power of the media and the internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing. All over the world, new communication technology is altering the relationship between business and society in dramatic and surprising ways. Even in more closed societies, connectivity can derail business plans. In Xiamen, China, armed only with cell phones and text messages, citizen groups forced local government and
business to suspend development of a petrochemical plant. The demonstration looked spontaneous, but behind the scenes, activists were using mobile phones to coordinate it.

2.2.4 Effects of products and services on firm's performance

Clearly, every company is looking for ways to cut costs, improve products and services, or create new products and services that meet consumer needs (Kotler, 2000). Researchers have discovered that integrated teamwork correlates strongly with new or improved product development (Madique & Zirger, 1984) and is most effective when different functions across the company participate in the process (Kotler, 2000). The addition of CSR managers to product development teams can bring a new “social” perspective to the way the team thinks about new or improved product ideas and concepts.

A growing body of academic research corroborates and attests to the generally positive influence of CSR on consumers’ company evaluations and product purchase intentions (Brown & Dacin, 1997; Carrigan et al., 2004; Creyer & Ross, 1997; Maignan, 2001; Schroeder & McEachern, 2005; Uusitalo & Oksanen, 2004). This kind of consumerism mainly incorporates environmental issues but also extends to animal welfare, human rights, and labor working conditions in the third world (Tallontire et al., 2001).

The links to consumers’ positive product and brand valuations, brand choice, and brand recommendations documented the relationship between CSR and consumer attitudes. As a result of the broad literature, Devinney, Auger, et al. (2006) proposed a new concept highlighting the important role that CSR plays in consumer behavior, consumer social responsibility (CnSR: “The conscious and deliberate choice to make certain consumption choices based on personal and moral beliefs” (p. 32). This concept has ethical and consumerism components, which can appear as an “expressed activity
in terms of purchasing or no purchasing behavior; and as an expressed opinion in surveys or other forms of market research” (p. 32). Conversely, recent investigations demonstrate that the relationship between CSR and ethical consumerism is not always direct and evident.

The results are in many cases contradictory and establish numerous factors that affect whether a firm’s CSR activities translate into consumer purchase. They include tradeoffs with traditional criteria like price, quality, and convenience and lack of information (Mohr et al., 2001); corporate brand dominance (Berens et al., 2005); and the type of CSR, quality of products, consumers’ personal support for the CSR issues, and their general beliefs about CSR (Sen & Bhattacharya, 2001). There seems to be a contradiction between what the international polls and surveys established in terms of intentions to buy products with CSR features and the real purchasing of them (Devinney, Auger et al., 2006). Auger et al. (2003) explained that the differences occurred because in the former studies, researchers used surveys to rank the importance of some CSR issues, without any trade-off between traditional features and CSR product features. These types of instrument overstate the relevance of CSR issues because Likert-type scales do not give “incentives to answer questions truthfully” (Auger & Devinney, 2005, p.2) and because “respondents may want to edit their private judgment before they report it to the researcher, due to reasons of social desirability and self-presentations”(p. 6). Hence, “these surveys may overstate the importance of social features, since there are clearly more socially acceptable answers” (Auger et al., 2006, p. 6).
2.2.5 Impact of philanthropic responsibilities on firm's performance

The amount and nature of these activities are voluntary, guided only by business desire to engage in social activities that are not mandated, not required by law, and not generally expected of business in an ethical sense. Nevertheless, the public has expectation that business will "give back", and thus this category has become a part of the social contract between business and society.

Several researches have attempted to determine whether Corporate Philanthropy benefits a firm's bottom line. The typical approach to answering this question has been simply to count the numbers of studies which show positive, negative, or inconclusive results for example, Griffin and Mahon 1997; Margolis and Walsh 2001. Several reviewers have argued on this basis that the results in the aggregate are simply inconclusive; in fact, reviewing the very same set of studies has led researchers to vastly different conclusions, such cases include, Griffin and Mahon 1997; McWilliams and Siegel 2001; Roman et al. 1999). An important factor which contributes to this lack of clarity, these reviewers note, is the tremendous degree of variation across these studies when it comes to the measures and standards used to assess social performance e.g., various reputation rankings, charitable donations, etc. or financial performance e.g., accounting measures, market measures, various combinations.

There is very little replication of existing measures and scales, which poses questions for their reliability and validity. In addition, there are sampling problems; e.g., industry-specific effects are often lost because most studies are conducted using large cross-sectional samples across many industries. Frustrated by such inconsistencies, some scholars even called for a moratorium on research of this topic, Margolis and Walsh (2001).
However, Orlitzky et al. (2003) argue that drawing such conclusions on the basis of such vote-counting is erroneous, because it effectively takes these studies at face value, disregarding their various theoretical and methodological problems. As an alternative, they argue that psychometric meta-analysis can take such deficiencies into account, allowing them to assess these previous findings in a more accurate way. Some studies have posited an inverse-U shaped relationship between corporate philanthropy and financial performance, Barnett and Solomon 2006; Bowman and Haire 1975; Sturdivant and Ginter 1977, and a recent study of 817 firms over a 13-year period shows strong empirical support for this proposition Wang, Choi and Li (2008) that corporate philanthropy contributes to financial performance only to a certain point, upon which increasing philanthropy has a negative effect on financial performance.

In addition, they have found that industry dynamism has a strong moderating effect, say; firms operating in more turbulent competitive environments can benefit more from philanthropy. However, as Van der Laan et al. (2008) note, even if we accept the positive sign on the CSP-CFP relationship, we still do not know enough about the mechanisms which drive this relationship. Wang et al. (2008) have proposed that philanthropy can lead to better signaling of reputation and increased cooperation and support from stakeholders, which in turn leads to more control over critical resources. In addition, negative effects of corporate philanthropy can be due to direct costs e.g., too much giving as well as agency costs. This latter aspect is stressed by Brown et al. (2006), whose study finds that corporate philanthropic activity is positively associated with board size and negatively associated with debt-to-value ratios. Philanthropic activity could be a sign of agency costs i.e., managers and directors are under less scrutiny and can give more to their preferred causes, observes Brammer and Millington (2005).
Similarly, Wang et al. (2008:143) note that another difficulty in finding definitive financial impacts of corporate philanthropy is because firms may engage in philanthropic activity for reasons which may not have financial implications. For example, it may be primarily because top managers may belong to certain social networks where others do the same (Galaskiewicz 1991; Marquis et al. 2007), or because other firms in the industry engage in such philanthropic activity (Galaskiewicz and Burt 1991).

Carroll (1979, 1991) places corporate philanthropy at the top of the CSR pyramid, as a discretionary responsibility over and above economic, legal, and ethical obligations. As a result, it could be expected that there would be little pressure on executives to exercise such responsibilities for example, to meet the demands of charities and so managers may choose to be charitable if they have abundant or slack resources (Waddock and Graves 1997). Seifert et al. (2003) examined the effect of available resources (operationalized as cash flow) on philanthropic activity, using multiple measures of corporate philanthropy (cash and non-cash) as well as financial performance (accounting measures as well as market-measures), and found a positive but not statistically significant relationship.

Studies done later by the same authors found that firms with more slack resources (cash flow / sales) contributed relatively more (annual donations /sales) (2004:150). While they found no significant effect of philanthropy on financial performance, they found a negative effect of ownership concentration (number of block holders) on donations and a positive effect of differentiation (selling, general and administrative expenses as a percentage of sales) on donations. Another key factor that affects corporate giving is firm size (Amato and Amato 2007; Boatsman and Gupta 1996; Galaskiewicz 1997;
Wood and Jones 1995). While some studies did not show a statistically significant relationship of firm size with corporate philanthropy (Seifert et al. 2004), Amato and Amato’s (2007) research confirms a cubic relationship between firm size and the level of giving.

This means that for small firms, generous corporate giving is important for building customer relationships at the local community level which are needed for competitive advantage. For large firms, on the other hand, which deal with more public visibility and scrutiny, corporate giving can serve as a means of acquiring the necessary goodwill, making reparations to tarnished reputations, and so on, which provides support for the arguments of Williams and Barrett 2000 and Godfrey 2005 (Amato and Amato 2007). To put it simply, financial slack can afford a company moral slack.

There are other factors that affect corporate giving rates. For example, Gan’s (2006) study found a significant relationship between governmental scrutiny (i.e., court cases) and corporate giving rates. News and media coverage has a significant positive effect on corporate giving, and this is amplified further in tandem with government agency court cases. However, this study also found evidence that situations of greater need, reflected by GDP, poverty rates, etc., had a significant impact on corporate giving, suggesting that corporate philanthropic motives are not purely instrumental but also altruistic.

Similarly, other studies show that legislative, environmental, and organizational factors matter as well. For example, unionized firms tend to give more; firms with institutionalized giving programs support education more; and higher tax rates are significantly associated with increasing local orientation of corporate philanthropy (Guthrie et al. 2008:870-871).
Some scholars have also argued that any relationship between corporate philanthropy and financial performance is possibly spurious. McWilliams and Siegel (2000) found that the effect of CFP on CSP became neutral upon introducing R&D intensity: firms committed to CSR also invest in R&D. Choi and Wang (2007) also note a spurious effect between philanthropy and financial performance, because both commitments arise from an underlying set of managerial values. The implications of this view are that "the constraints imposed on managers who value benevolence and integrity may be costly, because these constraints will also reduce the potential financial benefit that these managers can bring to the firm and its shareholders" (p. 354). They note that this view resonates with the argument of Werbel and Carter (2002) that imposing agency constraints on corporate decision-makers may in fact ultimately lead to negative financial consequences.

A further complication arises when we consider the problematic tendency in the literature to treat the notions of CSP and CSR in a monolithic fashion, as Barnett and Salomon (2006) have pointed out, which prevents us from seeing divergent and contradictory elements within these constructs. Most of the studies above have included corporate philanthropy as a dimension of CSP or CSR in trying to assess whether these either lead to improved financial performance or are a result of financial performance. But is corporate philanthropy really an indicator of social responsibility or social performance? In order to examine the relationship between corporate giving and social performance, the former being typically assumed as the top of the CSP pyramid (Carroll 1979, 1991). Chen et al. (2008) examine the relationship between corporate philanthropy and other dimensions of CSP: employee relations, environmental performance and product safety. Their findings indicate that when it comes to environmental performance and product safety, a larger percentage of firms that
perform worse on the social performance dimensions make donations than those without such problems.

Furthermore, the extent of giving is greater for these firms that perform worse. While it is not surprising that firms attempt to use philanthropy as a means to mitigate reputational harm (Williams and Barrett 2000), such findings seriously call into question the typical conceptualization of corporate giving as synonymous with social performance. In cases where corporate philanthropy is used as a tool of legitimization (Downling and Pfeffer 1975), it might allow companies to get away with poor social performance (Chen et al. 2008 and Patten 2002).

However, scholars have also pointed out that there has been simply too much emphasis on finding a pragmatic solution to the CSR debate, in the absence of adequate theorization and conceptualization. As a result we are faced with the frustrating challenge of trying to compare diverse and at times incompatible conceptualizations. As Margolis and Walsh (2003:278) note, “The imperfect nature of these studies makes research on the link between CSP and CFP self-perpetuating: each successive study promises a definitive conclusion, while also revealing the inevitable inadequacies of empirically tackling the question.”

### 2.2.6 Impact of environmental CSR on performance

Konar & Cohen (2001) examine the extent to which a firm’s environmental performance is represented in market-value movements of their stocks. Their study provides a significant added-value to the literature, as it extends the standard economic technique of decomposing a firm’s market value into the components of tangible and intangible assets. This is done by filtering the intangible environmental part out of the total intangible asset value. The authors find that there is a significant positive
relationship between a firm's environmental performance and the intangible asset value.

Furthermore, the empirical findings suggest that major corporations "voluntarily over comply" with environmental regulations in order to externally portray a healthy environmental image. Yet, the authors fail to prove whether this relationship is truly causal and leads to the positive significance of the relationship of the variables.

Derwall (2005) studies the relationship between a company's eco-efficiency and its financial performance. He defines eco-efficiency as the process of "creating more value with fewer environmental resources resulting in less pollution or natural resource exhaustion". Derwall finds evidence pointing to a positive and significant relationship between environmental management policies and a firm's Tobin's Q, representing a proxy for the market value of a firm. Even though the most eco-efficient companies in the sample outperform their least efficient counterparts by 6% per annum, eco-efficient companies do not in general have a higher Q relative to the reference group. Rather, it appears that the "least eco-efficient firms have a Tobin's Q that is significantly lower compared to the remainder of the companies in the sample" (Derwall, 2005). This finding implies that eco-efficient companies do on average not outperform the market. However, neglecting eco-efficiency completely leads to significant decreases in market value of a firm.

One specific stream of literature addresses the fundamental importance of core competencies that drive environmental performance. According to Grant (1991), a reorganization and specific differentiation of the firm's core competencies towards environmental results will drive financial performance. This view has been suggested by Russo & Fouts (1997), who relate financial performance to the resource-based view of the firm. The authors claim that this view highlights the role environmental policy
plays in generating broader organizational advantages that allow a firm to capture premium profits (Russo & Fouts, 1997). In specific, it "addresses the fit between what a firm has the ability to do and what it has the opportunity to do".

While the resources that a firm disposes of drive the abilities of a company through its core competencies, its opportunities are driven by the extent towards which the resources are employed to achieve financial payoffs through environmental performance. In fact, this relationship is reported to become more significant with increasing levels of industry growth, suggesting that companies active in high-growth industries have a higher potential and therefore a higher incentive to participate in environmental activities. In summary, the above analysis implies that companies can maximize their firm value through a more environmental application of their core competencies.

The previous results have shown that environmental activities lead to a positive effect on firm financial performance. Hamilton (1993) suggests that "investors may choose to restrict their investment to green companies or mutual funds in a desire for an integration of money into one's self". Barnett & Salomon (2005) find that fund managers "screen for green" using both qualitative and quantitative criteria in the investment process and only choose stocks from the top-performing quintiles of the distribution.

Barnett & Salomon (2005) and Derwall (2005) specifically point out that the extent to which social or environmental screening policies contribute to investment returns depends on the financial market's ability to factor the financial consequences of CSR into share prices. As he finds a significant outperformance of the high-ranked portfolio, Derwall (2005) concludes that "the benefits of considering environmental criteria in the

In conclusion, the majority of the literature finds a positive relationship between general as well as environmental CSR with the financial performance of a firm. Almost all studies claim that the improved financial performance is a result from being socially responsible. In contrast, Hart & Ahuja (1996) point to the problem of causality in the types of environmental tests. Does being clean raise profits and stock prices, or do successful firms, with higher profits and stock prices, undertake more clean activities because they can afford it? If going clean raises profits for the entire set of firms, then it is hard to reconcile why not every firm becomes more active in environmental activities to reduce the cost of equity capital and drive up their market values.

2.2.7 Corporate social responsibility and organizational performance

Previous research has hypothesis CSR and organizational performance to be positively related to each other. Russo and Fouts (1997) examined CSR from a resource-based view of the firm’s perspective. They argued that CSR can constitute a source of competitive advantage, especially in high-growth industries. McWilliams and Siegel (2001) indicated that CSR can be viewed as a differentiation strategy. Product or service differentiation is used to create new demand or to command a premium price for an existing product or service.

Michael Hastings and Wim Bartels (2008) also mention that the CSR will bring in value for companies in various dimensions such as; market differentiation based on their CSR strategy and commitments, innovations through better understanding
of stakeholder expectation or future risks, committed employees, reputation enhancement, favorable financing conditions, License to operate

2.3 Critical review of the main issues

A view is emerging that corporate social responsibility can contribute to the financial performance of a company. The enlightened shareholder approach suggests that corporate decision makers must consider a range of social and environmental matters if they are to maximize long term financial returns. Social responsibility is an ethical or ideological theory that an entity whether it is a Government, corporation, organization or individual has a responsibility to society at large. Businesses can use ethical decision making to secure their businesses by making decisions that allow for government agencies to minimize their involvement with the corporation. Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model.

Ideally, CSR policy would function as a built-in, self regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality.

Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line i.e. People, Planet, and Profit. The practice of CSR is subject to much debate and criticism. Proponents argue that there is
a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short term profits.

Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others yet argue that it is an attempt to pre-empt the role of governments as a watchdog over corporations.

2.4 Summary and Gap analysis

Whereas there is a considerable empirical literature on the impact of strategic CSR decisions on firm performance, there is however no consensus on the link between CSR and firm performance and on the empirical validity of the Porter hypothesis (Margolis et al. 2007; Forget, 2010). Earlier studies such as those performed by Cochran & Wood (1984), Arlow & Gannon (1982) or Waddock & Graves (1997) find a negative relationship between the measures studied.

In contrast, later studies published by Griffin & Mahon (1997), Cox et al. (2004) and Barnett & Salomon (2005) find a positive relationship between CSR and financial performance. Early studies have been criticized by Waddock & Graves (1997), who have noted that “the majority of the related literature relies on measures that either lack sufficient depth and detail, or alternatively, are too noisy to be fully capable of measuring Corporate Social Performance (CSP)”. CSR is considered as a form of governance or a response to governance challenges, however, of particular relevance for developing countries is the fact that CSR is often seen as a way to plug the ‘governance gaps’ left by weak, corrupt, or under-resourced governments that fail to
adequately provide various social services like housing, roads, electricity, health care, education, etc.

2.5 Conceptual framework

This study will examine the effect of Postbank participation in CSR on performance. CSR is the independent variable while performance will be considered the dependent variable.

The Bank participates in CSR through various activities which include addressing concerns of the environment, employees, customers, and the general public. It is expected that CSR participation would result in improved image, profitability, and customer and employee satisfactions, costs and risk reductions. The effect of CSR activities on performance is depicted in figure 2.1 below;

Figure 2.1: Conceptual Framework

Source: Author (2012)
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section details the scope of methodological procedures intended to be used in the study. The main aspects covered include study design, target population, sample design, data collection procedures, instruments, work plan, references, budget, data analysis and expected output.

3.1 Study Design

The study adopted a descriptive design and involved eliciting opinions of Postbank staff to help improve on the quality of data.

3.2 Target Population

This research focused on the 8 branches of Postbank situated within the Central Business District (CBD) of Nairobi. The estimated employee population in the area of interest was 300. The bank has an establishment of 800 employees. The target population was composed of staff from Human Resources, Operations, Finance and Business development departments, distributed as indicated in the table below;

Table 3.1: Target population

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>Population Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Operations</td>
<td>210</td>
<td>70</td>
</tr>
<tr>
<td>Finance</td>
<td>58</td>
<td>19</td>
</tr>
<tr>
<td>Business development</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>300</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Human Resources department records, Postbank. October, 2011
3.3 Sample Design

The staff of the departments, who were believed to be knowledgeable about the CSR activities and have equally been impacted, formed the sample frame. According to Mugenda and Mugenda (2003), a sample size of 10% is acceptable. In this research a sample size of 20% was used and considered more representative.

From the above population a sample size of 61 (approx.) will be obtained using stratified random sampling. This will be as shown in the Table below;

Table 3.2 Sample design

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>Population Frequency</th>
<th>Sample ratio</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>24</td>
<td>.20</td>
<td>5</td>
</tr>
<tr>
<td>Operations</td>
<td>210</td>
<td>.20</td>
<td>42</td>
</tr>
<tr>
<td>Finance</td>
<td>58</td>
<td>.20</td>
<td>12</td>
</tr>
<tr>
<td>Business development</td>
<td>8</td>
<td>.20</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>300</td>
<td></td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Author 2012

3.4 Data Collection Procedures/Instruments/Work Plan/References /Budgets

The study used both primary and secondary data. Primary data collection involved self-administered questionnaires. Structured questionnaires were used to collect data relating to the respondent’s views on the effect of CSR activities on the performance of Postbank. Respondents were selected using stratified random sampling.

The secondary data included journals, company reports, memos, circulars and any relevant material touching on the topic under investigation.
CHAPTER FOUR

RESEARCH FINDINGS

4.0 Introduction

This chapter presents the analysis and findings focusing on the objective of the research. The findings are presented in percentages and frequency distributions, mean and standard deviations.

4.1 General Information

The questionnaires were given to the sampled population of 61 respondents spread across specified departments to fill and thereafter return to the researcher. The response rate was 67.2% out of which 54% were male whereas 46% were female as shown in table 4.1 below. Most of the respondents fall under the age bracket of 31-40 years which represents 25 respondents which forms the majority. This is illustrated in table 4.2 below. In regard to the length of service, the results showed that majority fall under the 6-10 years as shown in table 4.3 below.

Table 4.1: Gender Response

<table>
<thead>
<tr>
<th></th>
<th>MALE</th>
<th>FEMALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: (Survey data 2012)
Table 4.2: Age bracket of the Respondents

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 yrs</td>
<td>5</td>
</tr>
<tr>
<td>26-30 yrs</td>
<td>20</td>
</tr>
<tr>
<td>31-40 yrs</td>
<td>25</td>
</tr>
<tr>
<td>Above 41 yrs</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: (Survey data 2012)

Table 4.3 Length of Service with organization (years)

<table>
<thead>
<tr>
<th>Number of service years</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 yrs</td>
<td>4</td>
<td>9.76</td>
<td>9.76</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>12</td>
<td>29.27</td>
<td>39.02</td>
</tr>
<tr>
<td>Above 10 yrs</td>
<td>25</td>
<td>60.98</td>
<td>100.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>41</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Survey data 2012)

4.2 Performance Information

Majority of the respondents believe that the performance of the financial institutions has been good with 88% of the respondents indicating that firm’s participation in corporate social responsibility had improved its performance. The same is illustrated in table 4.4 below;
Table 4.4 Financial institutions performance versus CSR participation

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>88%</td>
</tr>
</tbody>
</table>

4.3 Environmental Concerns

The majority of the respondents do agree that engaging in specific CSR issues such as tree planting and participating in community clean-up exercise have effect on the performance of the firm with 85% of the respondents agreeing as shown in table 4.5 below.

Table 4.5: Participation on environmental activities

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: (Survey data 2012)

4.4 Employee Concerns

Majority of the respondents agree that employee activities play a pivotal role in the performance of the bank. The results show that employees raised a number of issues
that impact on their performance which include: Salaries, working environment, promotions, medical scheme, training and development among others. The table 4.6 below show how employee policies affect performance.

**Table 4.6 Employee concerns**

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source:</td>
<td>(Survey data 2012)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**4.5 Customer Concerns**

68% of the respondents do believe that customer concerns have a greater impact on the performance of the firm which entails provision of safe products. 95% of the respondents agree that the bank addresses customer complaints satisfactorily as shown on table 4.6 below:
4.6 Environmental activities effect on performance

Majority of the respondents believed that participation of the bank on environmental issues has a high impact on performance in relation to image. Another 17.07% of the respondents were of the opinion that the effect on performance is very high. The standard deviation of the data was 8.23 as compared with a mean of 8.20 indicating near convergence.

On the effect of environmental activities on profitability, 41.46 % remained neutral while 39.60% said the effect was moderate. Those who believed the effect was high tied with the respondents who felt the effect was low at 7.32%. Only 4.88% felt the effect was very high.

Further 34.15 % of the respondents voted neutral on the effect of environmental participation of the bank on customer satisfaction. Another 31.71% said the effect was moderate. Only 24.39 % chose ‘high’, 7.32 % ‘very high ‘and remainder 2.44 % said it was low.
A majority of the respondents at 36.59% believed the environmental activities participation by the bank had low effect on employee satisfaction. Only 9.76% said the effect was very high and 12.20% selected high. Those who selected moderate and neutral were 21.95% and 19.51% respectively.

On the effect on cost reduction, a majority of 39.02% felt it was low, 24.39% neutral, 21.95% moderate, 9.76% high and 4.88% selected very high.

The majority respondents of 31.71% believed the effect on risk reduction was low. Those who selected moderate, neutral, high, very high were 24.39%, 26.83%, 14.63% and 2.44% respectively. The environmental activities effect on performance is illustrated on table 4.8 below.

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>8.20</td>
<td>8.23</td>
</tr>
<tr>
<td>Profitability</td>
<td>8.20</td>
<td>7.60</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>8.20</td>
<td>5.89</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>8.20</td>
<td>4.32</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>8.20</td>
<td>5.50</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>8.20</td>
<td>4.76</td>
</tr>
</tbody>
</table>

4.7 Employee activities effect on performance

On image as a performance criteria, a significant 58.84% respondent felt that CSR activities on employees by the bank had high effect on performance. 22.2% said it was very high while a minority of 2.44% believed it was low.

A majority respondents at 29.27% selected neutral on effect of employee activities on profitability. Respondents who made very high and neutral choices were level at 9.76%.
According to 39.02% of respondents, employee activities by the bank had neutral effect on customer satisfaction while 31.71% selected high. A small proportion of 7.32% felt the effect was very high.

On the effect of employee activities on employee satisfaction 43.9% believed it was high while 4.88% selected very high.

A majority of 43.9% respondents believed CSR activities on employees by the bank had high effect on costs. Further a sizeable proportion of 43.9% of respondents felt there was high effect on risk. The employee activities effect on performance is shown on table 4.8.2 below.

**Table 4.8.2: Employee activities effect on performance**

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>8.20</td>
<td>9.58</td>
</tr>
<tr>
<td>Profitability</td>
<td>8.20</td>
<td>7.16</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>10.25</td>
<td>5.62</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>8.20</td>
<td>7.66</td>
</tr>
<tr>
<td>Costs reduction</td>
<td>8.20</td>
<td>6.72</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>8.20</td>
<td>6.72</td>
</tr>
</tbody>
</table>

### 4.8 Customer activities effect on performance

A majority respondents at 46.34% believed CSR customer related activities had high effect on the bank’s image whereas 24.39% felt it was high. A paltry 7.32% remained neutral while non selected low effect as the rest chose moderate.

On the effect on profitability 46.34% respondents felt it was high, 34.15% moderate, 9.76% neutral, 7.32% very high and 2.44% chose low.

A Majority of respondents at 43.9% believed the effect on customer satisfaction was high while 19.51% chose very high. This constituted over 50% of the respondents.
While giving their opinions on effect on employee satisfaction, a significant proportion of 51.22% respondents chose moderate effect whereas 31.71% were neutral. Only 9.76% and 4.88% of the respondents selected high and very high effect respectively.

Customer activities effect on costs appeared unclear with majority 58.54% respondents choosing moderate and another 17.07% remaining neutral.

Other results indicated a proportion of 43.9% respondents who chose neutral when asked about the effect on risk. Another 34.15% respondents selected moderate effect.

The spread and distribution of the respondents is illustrated on table 4.8.3 below

Table 4.8.3: Customer activities effect on performance

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>10.25</td>
<td>6.60</td>
</tr>
<tr>
<td>Profitability</td>
<td>8.20</td>
<td>7.85</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>10.25</td>
<td>6.85</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>8.20</td>
<td>8.58</td>
</tr>
<tr>
<td>Costs reduction</td>
<td>16.20</td>
<td>16.12</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>8.20</td>
<td>7.29</td>
</tr>
</tbody>
</table>

4.9 Donation/charity activities effect on performance

A significant number of respondents agreed that philanthropic activities in the bank could have quite a huge impact on the organizations image. 41.46% of the respondents believed the effect was high while 26.83% chose very high effect. Only 2.44% respondents suggested low effect.

While commenting on the effect on profitability, 53.66% respondents suggested a moderate effect, 19.51% neutral, and 12.2% high. Those who believed the effect was very high tied with the low effect advocates at 7.32% each.
A majority 43.9% respondent expressed neutrality on the effect of charitable activities on customer satisfaction. Another 29.27% respondent chose moderate, 21.95% high while 2.44% said the effect was very high and the remainder 2.44% selected low effect.

A significant 53.66% respondent believed the effect on employee satisfaction was moderate, 24.39% chose neutral, 14.63% selected high. Another 4.88% and 2.44% were of the opinion that the effect was low and very high respectively.

On the effect on costs 53.66% respondents believed the effect was neutral, 17.07% chose moderate, 14.63% low while 9.76 % selected high and the remainder 4.88% settled on very high effect.

According to the outcome on opinion sought on the effect of charitable activities on the bank’s risk, 51.22% majority respondent expressed neutrality, 24.39% moderate, 9.76% chose low effect while the remainder attributes of very high and high shared 7.32% each. The distribution of the respondents is indicated in the table 4.8.4 below.

Table 4.8.4: Donations/charity activities effect on performance

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>8.20</td>
<td>6.22</td>
</tr>
<tr>
<td>Profitability</td>
<td>8.20</td>
<td>7.98</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>16.20</td>
<td>15.16</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>8.20</td>
<td>8.50</td>
</tr>
<tr>
<td>Costs reduction</td>
<td>8.20</td>
<td>7.95</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>8.20</td>
<td>7.73</td>
</tr>
</tbody>
</table>

4.10 Products and services activities effect on performance

A majority 51.22% respondent suggested that the CSR activities on products and services had high effect on the banks image. 26.83% said the effect was moderate while 17.07% selected very high as a paltry 4.88% chose low effect.
The results on the impact on profitability indicated that 43.90% chose high, 31.71% moderate, and 12.20% neutral. Another 9.76% selected very high effect and the remainder 2.44% chose low effect.

The effect of products and services activities on customer satisfaction indicated that majority 48.78% respondents suggested high effect, 34.15% moderate, 14.63% chose very high effect while the remainder 2.44% expressed neutrality.

Opinion on the impact on employee satisfaction was also sought. A majority 39.02% respondent chose neutral, 36.59% moderate while 14.63% selected high effect. Those who chose very high and low effects were tied at 4.88% each.

On the cost effect, a majority 48.78% respondents expressed neutral position, 31.71% chose moderate while the remainder selected high and low at 9.76% each.

Finally on the opinion sought on the risk effect, a significant 46.34% selected neutral, 26.83% moderate while 19.51% chose high effect as the remainder 2.44% and 4.88% respondents selected very high and low effects respectively. The distribution of the respondents is shown in the table 4.8.5 below.

Table 4.8.5: Products and services activities effect on performance

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>10.25</td>
<td>8.06</td>
</tr>
<tr>
<td>Profitability</td>
<td>8.20</td>
<td>7.05</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>10.25</td>
<td>8.42</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>8.20</td>
<td>6.87</td>
</tr>
<tr>
<td>Costs reduction</td>
<td>8.20</td>
<td>8.14</td>
</tr>
<tr>
<td>Risk reduction</td>
<td>8.20</td>
<td>7.33</td>
</tr>
</tbody>
</table>
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The aim of this study was to investigate the effect of corporate social responsibility on the performance of firms within the financial sector, with a case study of Kenya Post Office Savings Bank (Postbank). This chapter presents a summary of the results from the study, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary
The research findings indicate that CSR activities lead to improved performance by banks, however whereas it was a consensus reached majority respondents were quick to point out that such activities must be publicized by the institutions. They considered the impact of these activities from the marketing perspective where the bank could use this as an avenue to market its products. This view is supported by the fact that on several occasions some local banks have bought Television rights to air Live CSR functions, example is the award of bursaries to needy students’ event which apart from being graced by dignitaries, provides a forum for marketing the bank’s products and services.

A majority of the respondent agreed that although the effect of environmental activities on profitability was low it was however high on the firm’s image. They were also unable to link the firm’s profitability directly with the environmental activities. It was understood from the findings that organizations that are keen on improving its image should be viewed by the public as being environmentally friendly. A significant proportion of respondents indicated that environmental activity participation by the bank had greater effect on the risk faced. Previous researches on financial institutions in...
Kenya, including one by Central Bank of Kenya (2010), have suggested that participation by banks on CSR activities mitigates against the operating environment risks.

The financial sector continues to be competitive and firms have tried to be ahead through superior technology, quality products and services among others. Since the focus is the customer, the banks strive not only to satisfy its customers but also endeavor to exceedingly satisfy their expectations. Majority respondents agreed that customer complaints have been addressed satisfactorily. CSR activities on customers by the bank such as educating prospective as well as existing customers on savings culture were indicative in the study findings as an input to enhanced performance. A significant proportion of respondents said that handling of customer activities had great effect on the banks image and profitability.

Employees are a critical resource in an organization as they play a pivotal role in the attainment of the organization's goals. An overwhelming majority of the respondents suggested that employee satisfaction level have a higher effect on the image of the bank. A significant proportion believed that good employee practices and policies lead to reduced costs and risks for the bank. Employee activities were in the past left out of the CSR debate but recent studies indicate that when a company has CSR initiatives employees are more proud of and committed to the organization.

Philanthropy is the most popular way of organizations giving back to society and is considered a social contract between business and the community. Majority of the respondents agreed that donations or charitable activities by the bank translated to improved image. It however became difficult for the respondents to link charitable
activities with profitability as the firm's participation in these activities might not be intended to have any financial implications in terms of performance.

CSR can be viewed as a differentiation strategy. Product or service differentiation is used to create new demand or to command a premium price for an existing product or service. Majority respondents believed that focus on product or services by the bank lead to higher profitability, customer satisfaction and improved image.

5.3 Conclusion

In concluding this study and based on research findings, there is a strong evidence on the proposition that CSR activities have a higher effect on the performance of the bank. The performance focused on image, profitability, customer satisfaction, employee satisfaction, costs and risk profile of the organization. Given that the market place has become competitive and players in the industry compete for customers with an intention of increasing the deposits level, the findings indicated that CSR may be considered a differentiation strategy by the bank.

5.4 Recommendations

The findings of this study provide a platform within which recommendations can be made to the organization.

Customer satisfaction is the differentiating factor in a competitive environment and the bank must not only strive to satisfy its customers, but should endeavor to exceed their expectations. Human resources are a critical resource in organizations and enhancing employee satisfaction through good human resources practices should continue to be the main concern of the firm more so given that a satisfied employee performs better, reduces the overall costs and risks in the organization.
The bank should participate more on corporate social responsibility activities while at the same time using it as an avenue for aggressively marketing its products. The study advocates for CSR to be accommodated as a differentiation strategy with the objective of making the organization attain increased performance.

5.4.1 Recommendations for further research

The study confined itself to Kenya Post Office Savings Bank which is a purely savings bank and is not a commercial bank. It may therefore not be fully representative of the financial sector and as such it is proposed that a study of the whole industry in Kenya comprising of over 45 banks be undertaken.
REFERENCES


Elizabeth Kurucz; Colbert, Barry; and Wheeler, David “The Business Case for Corporate Social Responsibility.” Chapter 4 in Crane, A.; McWilliams, A.; Matten, D.; Moon, J. and Siegel, D.


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THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON PERFORMANCE OF POSTBANK

QUESTIONNAIRE

(Please answer the following questions)

PART A: GENERAL INFORMATION

Name................................................................................................................... (Optional)

Address.............................................................................................................

1. Sex (a) Female □ (b) Male □

2. Age (a) Less than 25 □ (b) 26-30 □ (c) 31-40 □ (d) Above 41 □

3. Length of service: (a) Below 5 years □ (b) Between 6-10 years □ (c) Above 10 years □

4. Department....................................................................................................

PART B: PERFORMANCE INFORMATION

Please tick against the appropriate response to the following statements about the effects of CSR on performance

1. How has been the performance of financial institutions in Kenya generally?

   A. Excellent □ B. Very Good □ C. Fair □ D. Poor □

2. Do you think the financial institutions participation in CSR activities has affected or improved their performance?

   A. Yes □ B. No □
3. If Yes, in what way

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.................................................................................................................................
4. Suggest ways that financial institutions could use CSR activities to further improve performance

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PART C: ENVIRONMENTAL CONCERN

1. Has there been any specific CSR issue touching on environmental conservation that the bank has engaged in?
   A. Yes □  B. No □

2. If Yes please explain

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.................................................................................................................................
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.................................................................................................................................

3. Has this impacted on the performance of the firm?
   A. Yes □  B. No □

4. How would you rate Environmental activities effect on performance under the following criteria?
   i) Image: A. High □  B. Moderate □  C. Low □  D. No effect □
   ii) Profitability: A. High □  B. Moderate □  C. Low □  D. No effect □
iii) Customer satisfaction: A. High □ B. Moderate □ C. Low □ D. No effect □

iv) Employee satisfaction: A. High □ B. Moderate □ C. Low □ D. No effect □

v) Costs reduction: A. High □ B. Moderate □ C. Low □ D. No effect □

vi) Risk reduction: A. High □ B. Moderate □ C. Low □ D. No effect □

5. Suggest what the Bank should do further on environmental issues to improve on its performance

PART C: EMPLOYEE CONCERN

1. Has the bank engaged in any specific CSR issues that touch on Employees?
   A. Yes □ B. No □

2. If Yes please explain

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........................................................................................................
........................................................................................................
3. Could you please rate the bank in term of the following factors?

Key 1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

<table>
<thead>
<tr>
<th>EMPLOYEE POLICIES</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current salaries in the bank are good and commensurate</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank will improve the remuneration levels due to the current competition</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The working environment in the bank is conducive for the employees</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Merit is mostly considered in promoting employees</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank employees undergo training and development</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>There are good HR practices on employment retention and promotion</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank conduct counseling services in regard to employees with physical, mental or emotional problems</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The current Medical provision meets the requirements of the employees</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

4. Has CSR activities on employees impacted on the firm’s performance?

A. Yes  B. No

5. How would you rate Employee activities effect on performance under the following criteria?

i) Image:  A. High  B. Moderate  C. Low  D. No effect

ii) Profitability: A. High  B. Moderate  C. Low  D. No effect

iii) Customer satisfaction: A. High  B. Moderate  C. Low  D. No effect
iv) Employee satisfaction: A. High  B. Moderate  C. Low  D. No effect

v) Costs reduction: A. High  B. Moderate  C. Low  D. No effect

vi) Risk reduction: A. High  B. Moderate  C. Low  D. No effect

6. Suggest what the Bank should do further on employee issues to improve on its performance

PART D: CUSTOMER CONCERN

1. Has there been any specific CSR issue that touches on customers that the bank has engaged in?
   A. Yes  B. No

2. If Yes please explain

3. Does the bank have customer education programmes?
   A. Yes  B. No

4. Do you think the bank addresses customer complaints satisfactorily?
   A. Yes  B. No
5. Do you believe that the bank’s CSR activities in relation to customers have an impact on its performance?

A. Yes ☐  B. No ☐

6. How would you rate bank’s customer activities effect on performance under the following criteria?

i) Image:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

ii) Profitability:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

iii) Customer satisfaction:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

iv) Employee satisfaction:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

v) Costs reduction:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

vi) Risk reduction:  A. High ☐  B. Moderate ☐  C. Low ☐  D. No effect ☐

7. Suggest what the Bank should do further on customer issues to improve on its performance

..................................................................................................................................................
..................................................................................................................................................
..................................................................................................................................................
..................................................................................................................................................
PART E: PHILANTHROPIC CONCERN

1. Has there been any specific CSR issue that touches on philanthropic activities that the bank has engaged in e.g. Donations?
   A. Yes □  B. No □

2. If Yes please specify
   ......................................................................................................................
   ......................................................................................................................

3. Has this impacted on the performance of the firm?
   A. Yes □  B. No □

4. How would you rate bank’s philanthropic activities effect on performance under the following criteria?

   i) Image: A. High □ B. Moderate □ C. Low □ D. No effect □

   ii) Profitability: A. High □ B. Moderate □ C. Low □ D. No effect □

   iii) Customer satisfaction: A. High □ B. Moderate □ C. Low □ D. No effect □

   iv) Employee satisfaction: A. High □ B. Moderate □ C. Low □ D. No effect □

   v) Costs reduction: A. High □ B. Moderate □ C. Low □ D. No effect □

   vi) Risk reduction: A. High □ B. Moderate □ C. Low □ D. No effect □
5. Suggest what the Bank should do further on philanthropic issues to improve on its performance

PART F: PRODUCTS AND SERVICES

1. Has there been any specific CSR issue that touches on products and services that the bank has engaged in?

   A. Yes   B. No

2. If Yes please explain

3. Has this impacted on the performance of the firm?

   A. Yes   B. No

4. How would you rate bank's products and services activities effect on performance under the following criteria?

   i) Image: A. High   B. Moderate   C. Low   D. No effect

   ii) Profitability: A. High   B. Moderate   C. Low   D. No effect

   iii) Customer satisfaction: A. High   B. Moderate   C. Low   D. No effect

   iv) Employee satisfaction: A. High   B. Moderate   C. Low   D. No effect
v) Costs reduction: A. High □ B. Moderate □ C. Low □ D. No effect □

vi) Risk reduction: A. High □ B. Moderate □ C. Low □ D. No effect □

5. Suggest what the Bank should do further on products and services issues to improve on its performance

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