



Corporate Social Responsibility as a driver for Consumer's Loyalty

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Abstract

The objective of this paper is to find out whether consumer's perception of Corporate Social Responsibility (CSR) policy of bank will affect the consumer's loyalty. We tried to see the direct effect of CSR to consumer's loyalty and the indirect effect to loyalty by using two mediating variables, namely satisfaction and trust. We split the CSR aspect into two main aspects, namely Business CSR and Philanthropic CSR. To test the hypotheses, we carried survey for bank customer who has bank account for more than 3 years. The result found that business CSR had a direct effect and indirect effect to consumer's loyalty. However, the philanthropic CSR did not have affect the consumer's trust.

Keywords: Corporate social responsibility, Customer Satisfaction, Loyalty, banking.

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1. Introduction

Over the past years, corporate social responsibility (CSR) has become the important issues in business and academics. CSR concept was first formally defined by Bowen (1953) as "the obligations of businessmen to pursue those policies, to make decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". Since then, other scholars have started to refine the definition of CSR to making it more precise. Sethi (1975) was the first to classify CSR into three categories, namely social obligation, social responsibility and social responsiveness. While Carol (1979,1991) categorize CSR into four areas, namely economic, legal, ethical and philanthropic.

Many studies have been conducted in order to test and verify the importance of CSR and many findings were mostly supportive of the positive benefits of CSR implementation. Empirical research has shown that CSR has strategic value to enhance a competitive advantage for an organization, which would contribute to better financial performance. The importance of CSR on various industries has also become popular on recent year, including in banking industry. Banks is considered as the most important institutions in any economy in the world. Banks have attempted to get trustworthiness from the stakeholders by implementing socially responsible principles through the CSR project. The objective of social responsibility and ethical principles in banking is to achieve an adequate economic performance by considering social and environmental dimension.



Due to business specifications of commercial banks such as operations with customers' deposits, banks have been exposed to permanent public spotlight. In this context, customer satisfaction is a crucial factor of bank's performance and its fundamental asset called trustworthiness. Customer satisfaction can be derived from various aspects such as quality of services provided, product prices or banking fees and branch availability. Furthermore, high level of customer satisfaction usually results in increased customer loyalty to the bank satisfaction are essential for evaluating the social pillar of CSR in banks.

This paper is focused on CSR and its effects on satisfaction and loyalty of bank customers and in Indonesia. The study focus on to to find out if there are positive relationships between business practice CSR reputation and satisfaction, trust and a loyalty, and also the relationship between philanthropic CSR reputation and trust; and lastly how the CSR can contribute positively to building loyalty and hence profitability,

The structure of the paper will be as follows. The first part provides a brief theoretical background focused on CSR and satisfaction in banks including a conceptual model which is followed by data description, conceptual framework and method used. Then, it will be followed by results and discussion and finally, the last part will provide a conclusion.

2. Theoretical Background

It is clear that corporate social responsibility is important for any business, if done properly, could result in a good reputation, such as reducing idiosyncratic risk, improving stakeholders' perceptions of corporate reputation, and positive financial performance (Goyal and Santa-Clara, 2003; Luo and Bhattacharya, 2009). Nowadays, CSR has become a more mature topic, and an important strategic management tool, which companies and scholars are keen to find out how to use it to fulfill both firm objectives, social and financial objectives. While there has been quite a number of research studies and discussions about the influence of CSR on customers' satisfaction, brand trust, and even loyalty, there has been little discussion on the moderating impact of these factors on loyalty. Moreover, most analyses that tried to link CSR to trust, satisfaction and loyalty did not distinguish between the different aspects of CSR.

This study has a different approach by splitting CSR into two aspects, namely business practice CSR (hereafter we called as Business CSR) and Philanthropic CSR. The main difference between Business CSR and Philanthropic CSR is basically based on the targeted stakeholder. Business CSR is based on the customer perception of the firm's engagement in CSR activities within a firm's core business operations targeted at it customers (Carroll, 1991; Homburg et al., 2013). While Philanthropic CSR is based on the Customer perception of the firm's engagement in CSR activities targeted at philanthropic interaction with



the community and non-profit organizations and its voluntary actions aiming to contribute in improving the overall quality of life of people in the society (Carroll, 1991; Homburg et al., 2013).

2.1 CSR in banking industry

For a bank-based nation, banks are considered as one of the drivers of economy. The financial industry in Indonesia is experiencing a very rapid development and growth. One of the indicator is shown by the increasing number of players in the industry. One of the consequences of this development is also the increasing level of competition the speed of banking deregulation. This leads the banks should look for many way profitable to differentiate themselves against competitors.

The tight level of competition demands all banks to be more capable delivering high value services that can foster satisfaction and trust for customers to create high loyalty from customers (Barcelos et al., 2015). Customer loyalty depends on many factors, such as CSR activities, (Kazemi & Omidi, 2015); satisfaction customer satisfaction (Barcelos et al., 2015; Chung et al., 2015; Kazemi & Omidi, 2015) and customer trust (Nha et al., 2013, Barcelos et al., 2015; Kazemi & Omidi, 2015).

Globalization has awakened the growing awareness of business responsibilities in the community. CSR is widely assessed as a bond of responsibility that is feasible to run to ensure sustainable benefits for companies and all stakeholders. CSR is considered important for a business to build trust and confidence in the stakeholders' interests.

Many previous research has find out that the activities of the company have a positive effect on customer satisfaction and satisfaction is also influential to increase customer loyalty. In addition, the convenience of customers in partnering with banks can provide satisfaction to customers. Satisfaction has been recognized as an important part of the strategy company. Thus, it is expected that positive CSR is related to satisfaction customers (Chung et al., 2015). The trust felt by the customer is the foundation upon which the decision is based to transact or continue business relationships with financial institutions (companies). Trust emerges as a manifestation of confidence from customers in financial institutions. Trust is a mediating variable between the customer's perception of social identity companies with customer loyalty to the company (Nha et al., 2015). Customer trust and satisfaction must establish customer loyalty. Loyalty customers (customers) are considered as important goals.



for growth and sustainability company life. Customer loyalty is an important foundation to develop competitive advantage. Previous research has shown that CSR has an impact important to customer attitudes, customer satisfaction and loyalty (Chung, et al., 2015).

However, positive contribution of CSR to financial performance did not appear in all empirical studies. Some research confirmed that corporate philanthropy did not contribute to better financial performances or profitability (Seifert et al., 2003). Another research study on South African firms also showed that CSR did not create significant differences in companies' financial performances (Chetty, , 2015). A few research studies found a negative financial contribution from CSR, due to high costs incurred in CSR, which resulted in reduced profits and shareholder wealth, echoing Friedman's view (Fernandez and Souto, 2009; Porter and Kramer, 2002).

2.2 Customer satisfaction, trust loyalty in banking industry

Satisfaction reflects a customer's judgment about bank's actual performance and their their expectations. If the bank's performance exceeds expectations, then the customer is very happy (Kotler & Keller, 2016). Satisfaction is not attached to the product or service itself, but satisfaction also included in the customer's perception of the attributes of the product or service provided. With Thus, different consumers will reveal varying levels of satisfaction for experience over the same service. Satisfaction has been recognized as an important part of the firm's strategy and become the main driver of the company's profitability for long run horizon (Chung et al., 2015).

Another aspect that may be a factor, which influences the bank's customer loyalty, is trust. Trust is considered as an important factor in developing long-term relationships between organizations (Nha et al., 2013). Trust reflects the credibility of the company in the eyes of consumers that has affect on long-term orientation and relationship between consumers and banks. In a marketing context, trust is usually linked with consumers' expectations of the firm's capacity to assume liability and fulfill the promises. This hope is based on competence, honesty, and virtue company. Competence is a skill that reflects the company's capacity to conduct transactions and to meet consumer expectations. Honesty is associated with fulfillment of promises made by the company, and virtue is the willingness of the company to consider the interests of consumers when planning and making decisions for engagement with consumers (Nha et al., 2013; Kazemi & Omid, 2015). The role of trust allows a company to develop and maintain customer loyalty. (Barcelos et al., 2015).

A bank's customer loyalty is an important goal for the survival and growth of a bank. Knowing and understanding the culture of loyalty is considered a key element in giving long- term profitability for the company (Chung et al., 2015). Loyalty comes when customers resist the temptation to move to another bank. Loyalty can be seen from two perspectives, namely attitude and behavior loyalty. Loyalty attitude



expressed the customer's desire to build relationships with the company. Loyalty as an attitude indicated by a commitment or an emotional bond to the brand or the company. While behavioral loyalty is customer support an. While behavioral loyalty is customer support given to the company. The loyalty approach as behavior involves consistency customer in re-purchase or re-use the services. (Kazemi & Omidi, 2015).

2.3 Conceptual framework and hypothesis development

CSR programs of a Bank can be increase the loyalty of the customer. The more satisfied consumers of the program CSR conducted by a bank then loyalty is also stronger (Chung et al., 2015; Barcelos et al. 2015; Kazemi & Omidi .2015). Since we splitting the CSR aspect into Business CSR and Philanthropic CSR, Then , The hypothesis proposed is:

H1: Business CSR directly affects the customer's loyalty

H2: Customer’s satisfaction mediates the relationship between Business CSR and customer loyalty

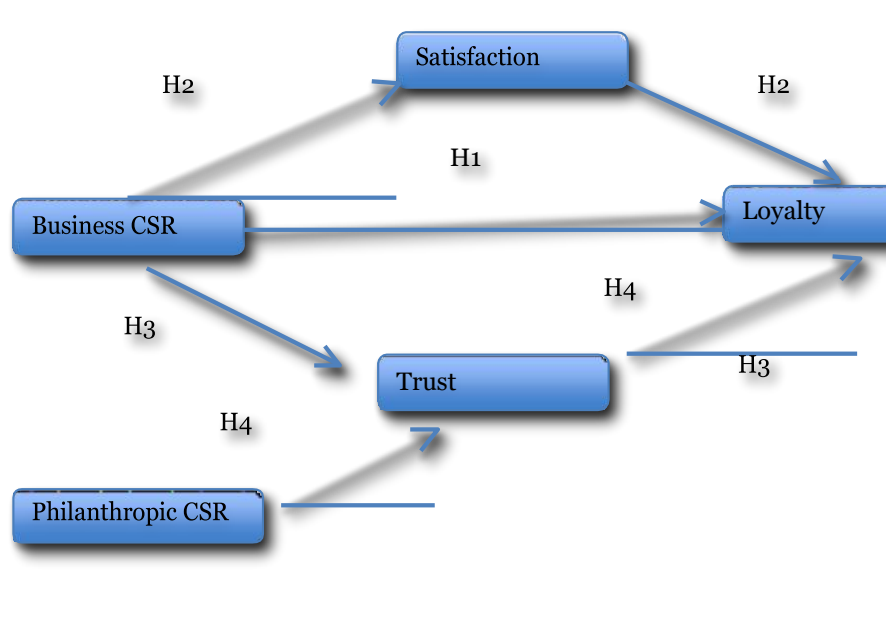
H3: Customer’s trust mediates the relationship between Business CSR and customer loyalty.

While regarding the Philanthropic CSR , the hypothesis proposed is as follows :

H4: Customer’s trust mediates the relationship between Philanthropic CSR and customer loyalty.

The research model proposed on the basis of the proposed hypothesis can be seen on Figure 1.

Figure 1. Research Model





3. Data and Methods

Research respondents is a bank’s customer who has joined or has bank account for 3 year and amounted to 170 bank’s customers. Simple random sampling is used and questionnaires were distributed through online survey. Research instrument in the form of questionnaires The questionnaire contains 43 indicator statements and each statement in the questionnaires used 5 Likert scale ranging from strongly disagree until strongly agreed. 27 statement consists of 6 statements about Business CSR, 6 statements about Philanthropic CSR, 6 statements on satisfaction, 4 s statements of trust and 5 statement about loyalty Pre-test done for test the reliability and validity of research instruments. Based on the results of the validity test shows that all statements on CSR, satisfaction, trust and loyalty has a correlation coefficient value with the total score of all statement larger than 0.30, so that all of these indicators are qualified validity of the data and can be declared valid. The result of the reliability test that four research instruments are CSR, satisfaction, trust and loyalty has a Cronbach's Alpha coefficient greater than 0.60 so the whole the statement qualifies the instrument's reliability and can be stated.

Table 1. Descriptive statistics –Observed Variables

Variables	Obs	Mean	Std. Dev.
BusinessCSR1	170	3.84	0.81
BusinessCSR2	170	3.75	0.89
BusinessCSR3	170	3.61	0.87
BusinessCSR4	170	3.40	0.73
BusinessCSR5	170	3.68	0.83
BusinessCSR6	170	3.68	0.83
PhilanthropicCSR1	170	3.37	0.80
PhilanthropicCSR2	170	3.22	0.80
PhilanthropicCSR3	170	3.51	0.71
PhilanthropicCSR4	170	3.29	0.69
PhilanthropicCSR5	170	3.08	0.69
PhilanthropicCSR6	170	3.28	0.78
Satisfaction1	170	3.81	0.67
Satisfaction2	170	3.79	0.78
Satisfaction3	167	3.62	0.77
Satisfaction4	170	3.88	0.68
Satisfaction5	170	4.04	0.63
Satisfaction6	170	3.83	0.71
trust1	170	3.96	0.66
trust2	170	3.61	0.76
trust3	170	3.78	0.65
trust4	170	3.66	0.72
loyalty1	170	3.79	0.73
loyalty2	170	3.65	0.70



loyalty3	170	3.61	0.76
loyalty4	170	3.50	0.78
loyalty5	170	3.30	0.88

Table 2. Respondents Profile

Item	Variables	Percentage
Gender	Male	27.65
	Female	72.35
Age	20-30	42.35
	31-40	45.88
	41-50	10.59
	More than 51	2
Occupation	Student	8.24
	Private Sector Employee	5.88
	Civil Servant Employee	38.82
	Professional (Doctors, Lawyers, etc)	24.71
	House wife	15.29
	Others	7.06
	Income (IDR)	Less than 1.000.000
	1.000.000-2.000.000	5.62
	2.000.001-5.000.000	19.38
	5.000.001-10.000.000	32.5
	10.000.001-20.000.000	15
	20.000.001-30.000.000	11.25
	More than 30.000.001	13.12
Education	High school	4.71
	Undergraduate	8.82
	Master Degree	50.59
	Doctoral Degree	29.41
Marital Status	Others	6.47
	Married	55
No of Bank account	Separated/Divorced	2.5
	Single	42.5
	1 bank account	15.88
	2 bank account	34.12
	3 bank account	27.06
	more than 3 bank account	22.94

From 170 respondents, 27.65% were male and 72.35% were female. The sample was slightly skewed to young adults with 42.35% aged 20-30, followed by the group of

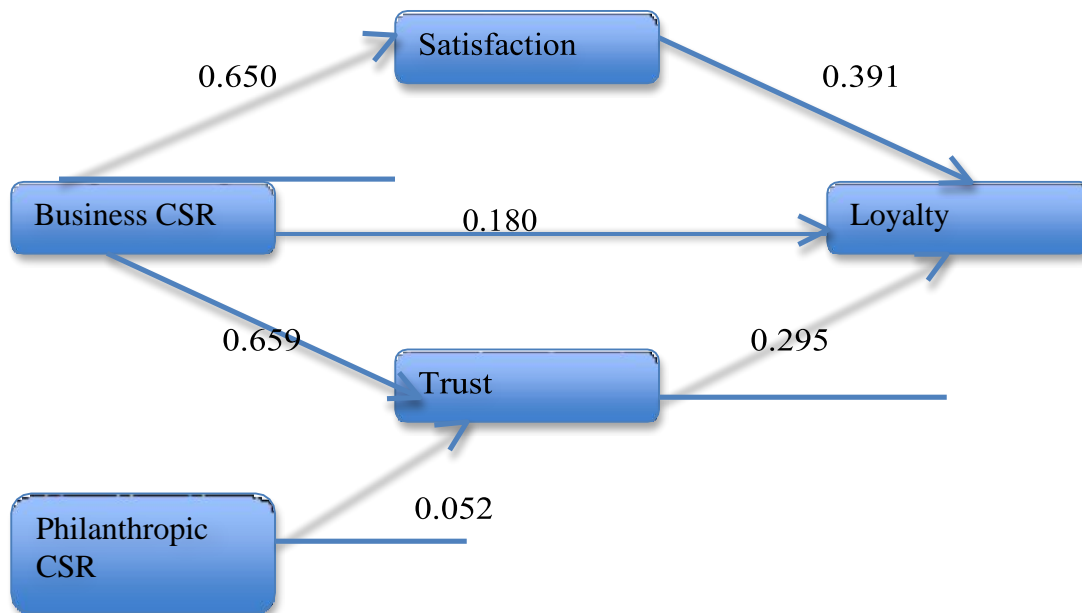


respondents aged 31-40 (45.88%), aged 41-50 (10.59%) and those aged more than 51 (2%). Amongst all respondents, 88.82% had a relatively high level of education at undergraduate degree level or above. Amongst the 170 respondents, 32.15% of respondents earned a monthly income from IDR5.000.000-IDR10.000.0000. The majority of respondents were either never married/single (42.5%) or currently married (55%). Regarding the number of bank account owned by respondent, almost 84.12% respondent owned more than 1 bank account either in the same bank or different bank.

The questionnaire survey was constructed according to conceptual model, thus it incorporated questions on CSR, satisfaction, trust and loyalty of the bank. For both customers and employees the scale of questions was measured as follows: 1 = very dissatisfied, 2 = dissatisfied, 4 = satisfied and 5 = very satisfied.

4. Results and Discussion

Figure 2. SEM Model



The structural model was evaluated by examining the structural paths, t-statistics, and variance explained (the R-squared value). In the model, business CSR and philanthropic CSR were exogenous construct variables as their causes were unknown and hence not represented in the model, and they were specified as causes for other variables (as can be seen from figure 1). To establish the goodness fit of model, fit indexes were conducted by observing the Chi- square, RMSEA, NFP, TLI and CFI and the results indicate that the model fit well with the data obtained. All goodness-of-fit statistics were within an acceptable fit level.



Table 3. Summary of Hypothesis Testing

Hypothesis	Exogeneous Variable	Mediating Variables	Endogeneous Variable	Standardize d Coefficient	Probability	Decision
H1	Business CSR		Loyalty	0.181	0.000	Hypothesis is supported
H2	Business CSR	Satisfaction	Loyalty	0.254	0.000	Hypothesis is supported
H3	Business CSR	Trust	Loyalty	0.194	0.000	Hypothesis is supported
H4	Philanthropic CSR		Trust	0.052	0.544	Hypothesis is not supported

Based on the result, that Business CSR has a positive effect on customer loyalty ($\gamma = .0.181, p<.01$), in support of H1.

By using satisfaction construct variable as mediating variable, this study uncover a significant effect of Business CSR on satisfaction ($\gamma = .0.650, p<.01$), which has a significant influence on customer loyalty ($\gamma = .391, p<.01$). The product of these effects is significant ($\gamma = .250, p<.01$), indicating a mediating role of trust as predicted in H2. Thus it can be concluded that Business CSR gives direct influence to the consumer’s loyalty, and also indirect influence through the consumer’s trust and satisfaction. Since the majority of respondents has level of education above undergraduate degree level, they seems to have S1 understanding and awareness of CSR and the business sustainability. In addition, all respondent has also has become bank’s customer for at least 3 years indicating that they have been loyal enough to the bank.

In the Meantime, by using trust construct as mediating variable, We uncover a significant effect of Business CSR on trust ($\gamma = .0.659, p<.01$), which has a significant influence on customer loyalty ($\gamma = .295, p<.01$). The product of these effects is significant ($\gamma = .19, p<.01$), indicating a mediating role of trust as predicted in H3. In contract with Business CSR, Philanthropic CSR has no significant effect on trust, hence it did not support H4. The result is quite consistent with the the research of Kazemi and Omidi (2015) and Chung et al. (2015). The customer also perceive that the variable of satisfaction and trust can strengthen the influence of Business CSR activity on the loyalty of bank’s customer. This is consistent with the previous study which states that the satisfaction variable can positively strengthen the influence of CSR on customer loyalty (Chung et al., 2015).

In this study, business practice CSR was found to have a positive relationship with satisfaction and trust, which is consistent with many different empirical research studies (Azmat and Ha, 2013). The relationship was the strongest (0.659) in terms of all the relationship on the construct model. However, it is inconsistent with the result from the relationship between philanthropic CSR and trust was that is found insignificant and very weak (0.052).



The literature has advised that when banks engage in ethical business practices targeted at primary stakeholders like customers, they will gain business practice CSR reputation, which serves as an indication of a company's trustworthiness (Homburg et al., 2013). The positive relationship between trust and loyalty was compared to the relationship between perceived service quality and trust. This concurred with previous studies, which have seen varying results on antecedents of trust, while the contribution of trust to attitudinal loyalty was seen to be strong (Homburg et al., 2013).

An insignificant relationship between philanthropy and trust was supported by other research, and could be related to consumers' scepticism of philanthropy by corporations (Wu and Chen, 2015).

5. Conclusion

This study tried to investigate the direct effect of CSR and indirect effect through mediating variables, namely satisfaction and trust, to consumer's loyalty. The research divided the CSR aspect into two different aspect, Business CSR and Philanthropic CSR. The findings concluded that business CSR can make a significant contribution to customer loyalty through direct and through the mediating factors of satisfaction and trust. Together with the confirmation of a relationship between perceived service quality, trust and attitudinal loyalty, the research has confirmed the positive contribution of business CSR towards profitability, which is developed by establishing attitudinal loyalty through building better satisfaction and trust. On the other hand, philanthropic CSR reputation was found not a significant driver to customer's loyalty. The implication of this research for bank management is to consistently implementing the CSR initiatives to improve customer satisfaction and formulate effective communication strategy and CSR strategy in general in order to enhance the customer satisfaction, trust and loyalty.

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