Customer Expectations of Corporate Social Responsibility Initiatives and Customer Loyalty: A Mediating Role of Service Quality

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Abstract: This research points out how two dimensions of Corporate Social Responsibility i.e. Shareholder and Ethical-Legal effect on the loyalty of the customers in the banking companies of Pakistan. Service quality is used as a mediator. Partial least squares structural equation modeling (PLS-SEM) is used to analyze the collected data. The findings demonstrate that CSR Shareholder centric initiatives and Ethical-legal centric initiatives show no effect on the loyalty of bank’s customers. Only CSR Ethical- Legal activities have an impact on customer loyalty through service quality. Service quality act as a mediator between CSR Ethical-legal dimension and customer loyalty. The conclusion of this study would help scholars in producing more CSR based loyalty models. These findings can also aid commercial banks of Pakistan to prioritize CSR initiatives in their strategic policies and planning.

Keywords: CSR, customer loyalty, service quality, consumer behavior, Customers

I. Introduction

Corporate Social Responsibility (CSR) acts as bridge in guaranteeing the continuity of operations and growth of any company. CSR has been marked as a vital issue for companies to achieve competitive advantage through continual growth. Extensive implementation of the CSR by the banking community across the globe indicates we may be arriving in a state where standardization has returned to the banking sector. Customers now see the banking sector as a socially responsible, hence confidence of the customers has lifted up [1]. In the contemporary slump of the business context, the banking industry of those industries in which the administration of CSR is indispensable to develop brand image and corporate standing[2]. Company’s CSR performances significantly affect its reputation and relationship with its stakeholder’s, CSR not only increases company's performance but also boosts up its morale, loyalty, the image of the company, and trust among customers. Due to plentiful benefits that are related to the CSR, corporations now are optimistic and buoyant to spent millions on CSR initiatives[3]. CSR is now considered as an investment and has gained a lot of concentration. It is regularly used by the corporations as a marketing tool to win the hearts of the stakeholders for long-term relationships [4]. CSR is believed to be a source of number of benefits that makes it one of the most studied topics but so far a majority of scholars discussed the effect of CSR on the corporate profitability[5]. However, CSR and customer behavior is still not investigated widely by the researchers [6]. Customer reactions to CSR have been extensively analyzed and examined in other sectors. Nonetheless, it is an important fact that impact of CSR is dissented in different industries because the ability to enhance and endorse the corporate identity is diversified across the industries. Foreexample, previous research demonstrates that Effect of CSR perceptions in services industries is positive than the manufacturing industries[4]. Hence, the deduction and propositions resulting from manufacturing based industries may not be sufficient for the services oriented corporations particularly for the financial institutions, so new research is imperative for this reason.

This research is a novel and exclusive development in the literature of CSR and consumer behavior. It uses the model that links CSR actions and initiatives with customer loyalty through service quality in the banking industry of Pakistan. The reason for using only two dimensions of CSR in this research is because of this definition "The company's status and activities with respect to its perceived societal or, at least, shareholders obligation”[7]. This research will tell us the consumer perceptions about CSR initiatives through the mediating role of service quality. It is noteworthy to identify and to investigate the other supplementary factors that can be united with the CSR actions to influence customer loyalty. The key role of this paper is that it permits researchers and scholars to grasp the mottled findings that have been examined by the previous researchers while analyzing the direct effect of CSR initiatives on consumer loyalty in the retail banking sector [8]. There
are some studies those found a significant effect on customer loyalty of CSR initiatives [8, 9]. Some scholars denied this relationship and proved no such relationship exists between the CSR actions and customer loyalty [10]. Some scholars also introduced mediating variables like customer-company identification and satisfaction. There are some studies pointing out that there is always some effect of CSR on the customer perceptions [4, 6].

Customer loyalty now a day's continue to attract most of the researcher's attention because of the promise of the predicting beneficial consequence such as customer retention and word of mouth [11]. This whole research relies on the Expected disconfirmation -paradigm (EvD) [12]. This posits that satisfaction and loyalty result from a cognitive comparison between actual and perceived level of service quality or performance. If a customer feels that service level, exceeds his or her expectation then satisfaction level increase and will positively affect beneficial behavior such as customer loyalty. Drawing on the Expected -disconfirmation paradigm this study anticipates customer loyalty result from both perceptions of CSR and service quality. Studies show that discontentment and displeasure is the most important reason customer switch to different banks [13]. To overcome customer churn or to maintain the retention of the customer is one of the top priority of the bank executive nowadays. As most of the banks are offering same products with almost same service charges and fee. So why should a customer be loyalty to a particular bank? The answer to this question is still unveiled [14]. Hence the chief aim of the study is to fill the existing literature gaps by analyzing empirically the impact CSR initiatives on service quality-loyalty relationships in the banking sector Pakistan.

II. Literature Review

In the nineties, a market study accentuated and explicated company image and its affect on the customers by a novel idea called corporate associations [7, 15]. This concept is developed initially and formulated in the psychological research and denotes all information which a customer gathers about the company. That information is aggregated and structured in their brain to form the universal company image. Therefore, corporate associations are extensive and ample ranged ideas that incorporated all of the constructs conventionally cited as an organizational image including attitude, sentiments, assessments and other forms of data and information that individuals grab about the corporation[7]. There are two types of corporate associations [7]

- "Associations of the corporate ability, experience of a company in producing and distributing the required products and services" [7]
- "Association of the corporate social responsibility, which refers as perceived image customers have about the social character of the company" [7].

Workforce experience, research &development, customer orientation, improved customer services, and excellent services quality for the advancement of organizations and customers is described as corporate ability. The other one is associated with actions such as corporate philanthropy, cause-related marketing, and initiatives related to the well-being of customers, employees, and environment etc.

In accordance, to above mentioned studies, this research considers on two types of corporate associations. The first association of the company in producing desired services to the customers, marketing associations in the form of service quality that a bank gives to its customers. The interaction with the exchange partners like shareholders, governments, is labeled as corporate social responsibility. In this research two dimensions of the CSR studied. One is Shareholders, as a company having CSR in its policies interact with the shareholders for giving maximum return and profit to them. The other one is ethical- legal dimensions, as a company has to work within boundaries set by the government and has to abide by the rules set by the government and society. It is the government which ensures that a company must work within desired limits and must be legal and ethical for the betterment of its stakeholders including shareholders, customers, and employees. Service quality is working as mediating variable in this research in the form of corporate ability.

2.1. Ethical- Legal CSR and Service Quality

Firms can gain advantage and can surround themselves with the better position in the marketplace if they have expertise in their product and services[7]. In the service literature, product quality means the dominated and superior service quality [16, 17]. Service quality is measured as customers opinion about brilliance and dominance of service quality provides [18]. Previous scholars have established an encouraging relationship between perceived service quality and CSR. For example [19]affirmed that customer expects their companies to be socially liable and should spend in CSR activities. These CSR expectations of the customers are certainly related to the Service quality. CSR initiatives of the customers have a direct and positive effect on the service quality and CSR activities and initiatives are also determinants of the service quality in the Spanish telecommunication industry [20]. Similarly, it has been proved firms ethical-legal responsibility is closely linked with the perceived service quality [21]. Moreover, [22] accentuated that firms ethical responsibility should be considered as apart of the service quality in the banking industry. There is positive link between the ethical
orientation of the CSR and service quality or commercial performance of the firm [4]. So, all in all, there is strong proof that ethical-legal dimension is closely related to the service quality.

So based on the above arguments following hypothesis is proposed

**H1: The Ethical-legal activities of the CSR have a positive effect on the service quality.**

**2.2 Share holder’s CSR and Service Quality**

While looking at the shareholder dimension of the CSR initiatives, this orientation predominantly stresses on the profitability of the company and information precision[6]. It is considered as the main responsibility of the banking companies towards their customers [23]. The first task of the banks is to be commercial and must seek for higher profits particularly in the current period where the competition is getting stringent and banks must exhibit their success[24]. It is also thought that being profitable or if a bank remains profitable then that bank lends itself to long-term wealth creation and that is highly valued by the customers[25]. Previous scholars have confirmed there is a constructive connection between perceived service quality and CSR. For example [19] stated that customer expects their banks to be socially accountable and should invest in CSR activities and these CSR expectations of the customers are positively related to the Service quality. Hence above discussion led us to the next hypothesis

**H2: Share Holder related activities of the CSR have a positive effect on the service quality.**

**2.3. CSR and the Customer Loyalty**

Fewer studies analyzed the connection between the CSR, attitude and customer behavior. Some studies affirmed that CSR has a momentous impact on the attitude and consumer behavior such as customer loyalty. These include [26] which showed cause-related marketing enhances the thoughts towards the brand although it was not clear that cause was familiar or not. Similarly CSR also positively influence product attitude proved by the [7]. The impact of CSR on consumer attitudes towards the companies and CSR initiatives result in improved attitude towards the firm[27]. Those who are bared to a company's CSR initiatives and actions have more favorable and positive attitude toward the firm and purchase the product and services of that firm. So, above evidence shows that there is a greater necessity to understand the relationship between the CSR, attitude, and behavior [28]. There are only two studies in the banking sector that revealed the effect of CSR initiatives on different factors but not on attitude and behavior of the customers. Effect on the loyalty of the customers indicated the further research gap. The relationship between CSR and Loyalty have been tested theoretically by [15] and empirically as well by [6]. Similarly, there have been some studies in which CSR has been used in customer loyalty model and has a direct positive effect on CSR [6, 16]. Most of the studies proved that CSR has a direct positive effect on the CSR without requiring an intervening variable. However, there are still small inclusions of the alternative paths and variables that connect loyalty to CSR. A chronological approach is needed, where the mediation of certain constructs explain the different activities that how CSR activities and behavioral outcomes are related. It will be helpful for the banking managers and other practitioners to implement and formulate actions that enhance consumer loyalty in specific sectors [27].

So based upon the above theoretical and empirical point of views, the subsequent hypotheses are projected

**H3: Ethical-legal activities has a positive effect on the customer loyalty**

**H4: Shareholder related activities of the CSR have a positive effect on the customer Loyalty.**

**2.4. Service Quality and Customer Loyalty in Banks**

Service quality has been broadly recognized as a dimension, which has an immense impact on consumer satisfaction and loyalty [29]. According to [30] service quality also greatly affect customer loyalty. They also said the customer satisfaction is the key issue in today's world to increase the customer loyalty. Customer satisfaction and loyalty also have become the critical factor for the firms and companies which are delivering the services online as well [30]. According to [31] service quality is a fundamental and major aspect of creating the customer loyalty. He also affirmed that service quality strongest predictors of the customer loyalty along with the customer commitment. There is evidence that service quality and customer loyalty are closely related so following hypothesis is proposed.

**H5: Service Quality has a positive effect on Customer Loyalty**

**2.5 Service quality mediates the relationship between CSR and Customer Loyalty**

Quantitative studies have revealed that service quality has a twofold effect on the loyalty of the customers [32]. In the research conducted by [33], they concluded that excellent services quality integrated with the CSR might deeply influence the customer satisfaction and loyalty. Similarly [19] found how firm CSR actions influence service quality perceptions, customer trust and loyalty in the Thai banking sector. In the light of above empirical findings following hypotheses are proposed.
H6: Service quality mediates the relationship between the ethical -legal CSR activities and customer loyalty.

H7: Service quality mediates the relationship between the shareholder CSR activities and Customer Loyalty.

III. Theoretical Model
The theoretical model was prepared on the bases of literature cited above. The same is presented at the end of this article at Figure 1

IV. Research Methodology
Authors carried out a quantitative study based on surveys from customers of banking industry of Pakistan. The sample was collected during two months from January 2018 to February 2018. Banking services customers were defined as "people who had at least one bank account for which they were the key decision-makers at the time of answering the questionnaire". Consumers got in touch in the streets, in banks and in shopping malls. The respondents were chosen randomly and requested to participate in the survey. Seven points Likert scale used to determine all the constructs in the theoretical framework. Where 1 = Strongly Disagree and 7 = Strongly Agree. CSR is appraised by taking up the stakeholder’s based approach used by [6]. Service quality is evaluated by the [34].Customer loyalty is evaluated by the [35]. A total of 130 usable samples were collected from two cities Islamabad and Lahore of Pakistan.

4.1. Reliability and Validity:
In this analysis, the proportion of variability (R) of the dependent variable customer loyalty through service quality is assessed. A two phases approach projected by [36] is used where assessment of measurement model is performed first. Reliability of internal consistency of the variables is confirmed through composite reliability (CR) which should have values of greater than 0.7 (Chin, 1998). Indicator reliability is established by item loadings greater than 0.6. To confirm the convergent validity AVE values for the constructs should be higher than 0.5 [37]. Finally, discriminant validity evaluated by the technique proposed by [37] to confirm that AVE’s square root is higher than the correlation among the variables. Table 1 demonstrates all the values fulfilled the criteria with CR values from 0.958 to 0.974, AVE from 0.885 to 0.844. Also, the square root of AVE in table 1 affirms the values for discriminant validity. In the same way, all item loadings are greater than 0.6.

V. Results
After the reliability and validity, then for testing the hypothesis we run the structural assessment models. The structural model assessment is done to test the proposed hypotheses. Bootstrapping method is used in the assessment of structural model, as this method is recommended for the studies with sample size of over 5000 [38]. For two-tailed test critical values of 1.65, 1.96 & 2.58 at significance level of 0.10,0.05 & 0.01 respectively are mandatory [39]. Figure 2 presents the beta values of all individual paths of the model along with their t-values in the parentheses. The two-tailed test was performed with 5000 bootstrap samples at a significance level of 0.05. Results showed that standard coefficient value for direct relation of CSR SHAR is 0.056 (t-value (0.754); p >0.01) and it is insignificant while (β) value for direct relation to CSR ETH and customer loyalty is -0.012 (t-value (0.130); p <0.01) is also insignificant. Beta value for Service quality and customer loyalty is 0.828 (t-value 10.735; p < 0.05) which shows that path between service quality and customer loyalty is significant. Using subsamples of 5000 bootstrap with 95% confidence interval, indirect effect with confidence interval value was checked for mediating effect. The mediation effect is there which can be inferred from values of table 2. Beta values of direct path between CSR ETH -> Customer loyalty is -0.012 (t-value (0.130); p <0.01) is insignificant and value between indirect path CSR ETH-> and SQ is 0.660 (t-value 6.929; p < 0.05) are significant, so hypotheses H6 is accepted and confirms full mediation. The Beta value for a direct path between CSR SHAR -> Customer loyalty is 0.056 t value (0.754) is insignificant and the value of indirect path, indirect path is CSR-> and SQ is 0.060 (t value 0.661) which shows no mediation of service quality between CSR SHAR and customer loyalty. So the hypothesis H7 is rejected and there is no mediation between CSR SHAR and customer loyalty through service quality and direct path between CSR SHAR and customer loyalty is also insignificant.

VI. Discussion, Limitations and Future Research
The aim of this research paper is to build up a model to study how two dimensions (Shareholder, Ethical-Legal) of (CSR) effect on customer loyalty considering service quality as a mediator in the banking industry of Pakistan. Here in this paper, it is found that both dimensions of CSR not have any direct impact on the customer loyalty. This result is according to the findings of [20, 40]. In addition to this, our results

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are also backed by [17]. CSR Ethical-legal dimension has an impact on customer loyalty through service quality and service quality fully mediates the relationship between CSR Ethical-legal dimension and customer loyalty. This result is also supported by the authors [16]. Customers are more loyal when corporations heed attention to CSR and service quality [16]. Service quality does not mediate between the CSR shareholder dimension and customer loyalty. There is a weak relationship between CSR and perceived service quality [16]. Similarly there is no positive relationship between service quality and CSR [17]. In our research, shareholder dimension of the CSR does not have an effect on customer loyalty and service quality. Service quality does not mediate the between CSR shareholder dimension and customer loyalty. The acknowledgment and recognition of the shareholder dimension of CSR by the consumers and its influence on customer intention and behavior are questioned by the scholars [20, 41]. This research also gives an idea how customers rank these two dimensions. Here in this research, it is clearly evident that customers do not care about the profit maximization of the bank, strict control over the cost by them, competitive positioning of the bank and maintenance of high level of operational efficiency. Customers want rules and regulations should abide by the banks imposed by regulators and government. Banks should also engage in those activities that are accepted and expected by the society[42]. Customers also demand ethically justifiable behavior from their firm which increases trust in them and that leads towards their loyalty [6]. There is a momentous impact of service oriented culture on customer loyalty. It is according to results of [43]. If the company fails to provide the excellent services to its customers then the customer will no longer be loyal to that organization. CSR Shareholder dimensions have no significant effect on the service quality whereas CSR Ethical-legal dimension has an effect on the service quality and [16] also provided the same findings that CSR has some impact on service quality. It shows that customers want corporations and firms to perform in an ethical and legal behavior and desire the paramount services from them. If an organization fails to provide good services to its customer's eventhough they behave within the rules and regulations set by the government, then it will not affect the loyalty of customers. For gaining loyalty they must have to invest in excellent services delivery and quality as well. The findings also advise that banking industry should heed interest to CSR initiatives and include them in strategic and long-term plans to strengthen customer loyalty intentions. Similarly, the ethical-legal dimension can enhance service quality which is the significant variable in the loyalty model projected in this paper.

Every research has some limitations. First restraint of this research is about the collection of the data. Data is collected only from two cities of Pakistan Islamabad and Lahore. This research included only commercial banks of Pakistan, savings banks, and cooperative banks are not included in this research.

This study also proposes specific future research directions. It would be great if future researchers replicate this research in different countries. Moreover, the effect of CSR should be checked with different interviewing variables like trust and CCI for an enhanced consideration of CSR. Similarly, the effect of CSR on customer loyalty should be checked in other industries as well. Other researchers should also include the type of bank in their studies like research can be conducted on saving banks and cooperative banks. Similarly, researchers should replicate this research into other financial sectors like insurance companies.

References


[37]. Fornell, C. and D.F. Larcker, Structural equation models with unobservable variables and measurement error: Algebra and statistics. Journal of marketing research, 1981: p. 382-388.


Figure 1 (Theoretical framework)

Table 1 Statistical Quality Indicator

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<td>Ethical-Legal CSR</td>
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<td>Shareholder CSR</td>
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<td>Loyalty</td>
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<td>SQ</td>
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Figure-2: Results of Structural Model

Table 2 (structural model)

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<th>Table 2 (structural model)</th>
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<td>Hypotheses</td>
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<td>CSR_Eth -&gt; Loyalty</td>
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<td>CSR_Eth -&gt; SQ</td>
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<td>CSR_SH -&gt; SQ</td>
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### Table 3 Indirect effect for mediation Analysis

<table>
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<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Indirect Effect</th>
<th>SE</th>
<th>t-value</th>
<th>5% LL</th>
<th>95% UL</th>
<th>Decision</th>
</tr>
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<tbody>
<tr>
<td>H6</td>
<td>CSR ETH→ SQ→ Loyalty</td>
<td>0.660</td>
<td>0.095</td>
<td>6.929</td>
<td>0.509</td>
<td>0.813</td>
<td>Supported</td>
</tr>
<tr>
<td>H7</td>
<td>CSR SHAR→ SQ→ Loyalty</td>
<td>0.060</td>
<td>0.091</td>
<td>0.661</td>
<td>-0.081</td>
<td>0.214</td>
<td>Not Supported</td>
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