

CORPORATE SOCIAL RESPONSIBILITY AND CUSTOMER LOYALTY: A MEDIATING ROLE OF TRUST

Ali Raza, Umair Saeed Bhutta, Muhammad Khalid Iqbal, Naveed Ahmad Faraz

School of Management, Wuhan University of Technology, Wuhan P.R.China, 430070

ABSTRACT

This research spotlights the direct effect of CSR on customer loyalty while trust was taken as a mediator. In this research, it is proved CSR initiatives by the companies have a positive and significant effect on the customer loyalty. Moreover, trust also serves as a mediator between CSR and Loyalty. Data collected from account holders of different banks of Pakistan. Structural equation modeling is examined by using PLS software. The findings of this study would help scholars in developing more CSR based loyalty models. These findings can also aid commercial banks of Pakistan a better indulgence CSR initiatives in their startegic planning process.

Keywords: CSR, Trust, Customer loyalty, Customer retention

1 Introduction

CSR and customer loyalty have been noticed and recognized by scholars and practitioners as significant and vital business benefits generators. Previous researchers and findings proposed that by being good corporate citizens, organizations can turn its customer into brand ambassadors, can make their customers to pay higher prices for the same product and services. Similarly, CSR also makes the customers more resilient to the negative brand news (Du & Bhattacharya, 2010). A positive image of a company regarding its CSR activities can enhance its profitability; attract new investors and skilled workers. Past studies have associated CSR not only to improved employee attraction, but also retention of the employees (Kim & Park, 2011). Moreover, CSR has been linked positively and correlated with improved customer satisfaction (Peloza & Shang, 2011; Sen & Bhattacharya, 2001). Many others past studies showed consumers take into consideration CSR activities and initiatives of the company when making any purchase decision (Beckerolsen, Cudmore, & Hill, 2006; Brown & Dacin, 1997; Sen & Bhattacharya, 2001). Nonetheless, the relationship between CSR and customer loyalty has not been examined thoroughly and there has not been enough research done on this topic. Further research is needed on this topic particularly in the tertiary sector in which customer loyalty is more subtle and impulsive as compared to the other sectors (Vlachos & Vrechopoulos, 2012). Furthermore, the impact of CSR on customer attitudes and outcomes like (attitudinal loyalty, purchase intention and word of mouth) may differ among the territory sector peculiarly in the banking sector (Moisescu, 2017). Similarly previous studied have investigated the relationship between CSR and customer loyalty within limited context and structure, in which CSR was conceived and gestated narrowly, with focus on one or more of its specific dimension e.g. (environment, social, or ethical). Thus, a specific approach is needed in which CSR could include in its holistic manner to fill the gap of the literature (Moisescu, 2017). In addition to this, the knowledge of these relationships is very limited within the composite and holistic framework of CSR especially in the socio-cultural and economic context of developing countries (Moisescu, 2015).

Starting from previously identified literature gap, the aim of the current paper is to check and investigate the effect of the customer based CSR (the extent to which customers perceive organizations as taking interest in CSR) on customer loyalty through mediating effect of trust in the developing country such as Pakistan.

2 Literature Review

2.1 The concept of CSR

In measuring the CSR literature gives us with at least three main approaches. One of the approaches is an old. This approach consists of four aspects of CSR (Carroll, 1979). These aspects include Ethical, Legal, Economic and Philanthropic. The second point of view relates the concept of CSR to the social responsibility of sustainable development. From this point of view, CSR comprises of three dimensions economic, environment and social (Kolk & Van Tulder, 2010). A third approach regarding CSR is related to stakeholder's approach which comprises several dimensions of CSR. These dimensions include customers, employees, ethical-legal, and shareholder, environment and society (Parmar et al., 2010). Based on these three scales scholars have different scales to measure the customer perceptions of CSR (Crespo & del Bosque, 2005; Maignan, 2001; Öberseder, Schlegelmilch, Murphy, & Gruber, 2014; Pérez, del Mar García de los Salmones, & Rodríguez del Bosque, 2013; Ramasamy & Yeung, 2009; Salmones, Perez, & Bosque, 2009). In this paper, stakeholders based approach is used given by (Freeman, 1984).

2.2 The concept of Loyalty

Customer loyalty is an intricate and broad concept, while its definition is still a challenge for the scholars for many decades. Many authors defined customer loyalty but a very comprehensive and compact definition is given by the (Jugenheimer, 1979) who said "customer loyalty is biased behavioral response expressed over time by customers with respect to one or more alternative brands out of set of brands, is a function of psychological process" From his point of view customer loyalty cannot be distinguished between true loyalty and specious loyalty. In case of genuine customer loyalty, it is escorted by the psychological commitment and positive brand attitude (Moisescu, 2017). The conceptual framework of customer loyalty is developed by the (Dick & Basu, 1994). They defined the customer loyalty " relationship between the relative attitude toward an entity (the degree to which consumers evaluation of the brand or product dominates the alternatives) and repeat patronage behavior. (Oliver, 1999) also explained the customer loyalty in a fashionable manner by saying, it is deeply held commitment of the consumers to rebuy and re-patronizing the same product or service consistently in future no matter the marketing efforts having the potential to switch the behavior of the customers.

2.3 Customer trust

Customer trust is defined as "the product and the service provider can be trusted in a way that long-term interest of the customers will be served" (Crosby, Evans, & Cowles, 1990). Trust always serves as the bases for the long term relationship between customer and the company (Morgan & Hunt, 1994). In the framework of marketing if a company wants to gain the loyalty of the customers then firstly they have to gain their trust (F. Reichheld & Schefter, 2000). Many authors found the significance of trust in gaining customer loyalty (Chaudhuri & Holbrook, 2001; Sirdeshmukh, Singh, & Sabol, 2002). Trust is one of the important and key to building a relationship with the services industry (So, King, Sparks, & Wang, 2013). In the study conducted by (So et al., 2013) they found trust is a strong predictor of the customer loyalty.

3 Research Model and Hypotheses Development

3.1 CSR and Customer loyalty

Limited Studies examined the relationship between the CSR, and consumer behavior including customer loyalty. These researches showed CSR has a significant effect on the consumer behavior including loyalty (Lafferty & Goldsmith, 2005). Studies also found that CSR positively influence product attitude (Brown & Dacin, 1997). CSR programs or initiatives result in improved attitude towards the firm as predicted by (Murray & Vogel, 1997) . According to (Wigley, 2008) those who are exposed to company's CSR have more favorable and positive attitude toward the firm and purchase of the product and services. So, above all evidence shows there is a relationship between CSR and customer loyalty.

H1: CSR has a positive effect on customer loyalty

3.2 CSR and Trust

Studies showed there is a significant effect of CSR on trust (Kennedy, Ferrell, & Leclair, 2001; Swaen & Chumpitaz, 2008). Customer trust is affected by the standards that companies share (Morgan & Hunt, 1994). CSR initiatives provides information and character about the company (Brown & Dacin, 1997). These activities are useful for increasing the trust towards the organizations.

So based on the above arguments we proposed the following hypothesis

H2: CSR has a positive effect on trust.

3.3 Trust and Loyalty

In the context of services marketing to gain the loyalty of the customers, you must first gain their trust (F. Reichheld & Scheffer, 2000). Many authors found the importance of trust in explaining customer loyalty (Chaudhuri & Holbrook, 2001; Sirdeshmukh et al., 2002). Trust is one of the important and key to building a relationship with the services industry (So et al., 2013). In the study conducted by (So et al., 2013) trust is the strong determinant of customer loyalty. So above discussion leads to the following hypothesis

H3: Trust positively affects customer loyalty.

3.4 Trust as a mediator between CSR and Customer Loyalty

There is a constructive link between trust, and customer loyalty (Sirdeshmukh et al., 2002). Trust has been used a mediator between CSR and customer loyalty by (Choi & La, 2013) in which they showed trust act as a partial mediator between the CSR and customer loyalty. Based on above arguments we develop the below-mentioned hypothesis

H4: Trust act as a mediator between CSR and Customer Loyalty

3.5 Theoretical Framework

Theoretical framework is at the end of paper

4. Research Methodology

The authors carried on a quantitative study based on interviewer-administered surveys. The Survey was done to the 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". The customers were contacted in the street, in the branches of the bank and in shopping malls. Similarly, online responses were also filled with the help of google forms. Questionnaires were also sent through emails to the respondents. The authors used a random sampling technique. Seven points Likert scale is used to measure all the constructs in the conceptual model. Where 1= Strongly Disagree and 7 = Strongly Agree. CSR is evaluated by adopting the stakeholder's based approach used by (Pérez et al., 2013). Customer loyalty is evaluated by the (Zeithaml, Berry, & Parasuraman, 1996). Trust is evaluated by (Morgan & Hunt, 1994) A total sample of the banking customers is 100. These customers were chosen from two cities of Pakistan Islamabad and Lahore. The reason for choosing these two cities is because of most of the literacy rate of these two cities. Most of the population of these two cities is well educated and understand the concept of the CSR.

4.1 Reliability and Validity

In this analysis, the proportion of variability (R) of the dependent variable customer loyalty through trust is assessed. A two phases approach proposed by (Henseler, Ringle, & Sinkovics, 2009) 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 (Fornell & Larcker, 1981). Finally, discriminant validity assessed by the technique proposed by heterotrait-monorail ratio method and all the values were below than 0.9 which shows discriminant validity achieved. Table 1 demonstrates all the values fulfill the minimum criteria with CR values from 0.977 to 0.968, AVE from 0.662 to 0.909. All the values are shown in the end of document in table 1

5 Results

Hypotheses are checked through structural model assessment. Figure 1 shows the standard coefficient (β) and items loading in the research model. The value of path coefficient of 0.20 and greater is understood significant (Hair, Ringle, & Sarstedt, 2011). The second phase is about the assessment of structural model where a bootstrapping method is suggested with a minimum sample size of 5000. 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 required (Hair Jr, Hult, Ringle, & Sarstedt, 2016). 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 to customer loyalty is 0.363 (t-value (2.952); $p > 0.01$) and it is significant while (β) value for direct relation to CSR and customer trust is 0.855 (t-value (26.228); $p < 0.01$) is also significant. Beta value for Trust and customer loyalty is 0.545 (t-value 3.999; $p < 0.05$) which shows that path between trust 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. In table 2 values confirm the presence of mediator variable. Beta values of direct path between CSR \rightarrow Customer loyalty is 0.363 (t-value (2.952); $p < 0.01$) is significant and value between indirect path CSR \rightarrow and trust is 0.466 (t-value 4.007; $p < 0.05$) are significant, so hypotheses H6 is accepted and confirms mediation exists between CSR and customer loyalty. Results are shown in Figure 1 and table 2 at the end of paper.

6. Discussion, Limitations and Future Research:

The aim of the study is to propose a model how CSR affects customer loyalty and what is the role of trust as a mediator. The results show that CSR has a direct and positive effect on the customer loyalty. This result is according to the studies conducted by (Murray & Vogel, 1997) who proved CSR initiatives have a positive effect on customer attitude towards the product or service. Moreover, The relationship between CSR and Loyalty have been tested theoretically by (Sen & Bhattacharya, 2001) and empirically as well by (Pérez et al., 2013) and our results are according to the above-mentioned studies. In our research, trust also served as a mediator between CSR and customer loyalty. It means CSR also generates the customer loyalty if customers have trust in that company. In addition to this, customers who have confidence and trust on products and services provided by the company then it will also have an impact on their loyalty and they will find the company's CSR activities are for the betterment of the customers as well. So these findings are according to the study conducted by (Sirdeshmukh et al., 2002). Trust has been used a mediator between CSR and customer loyalty by (Choi & La, 2013) in which they showed trust to act as a partial mediator between the CSR and customer loyalty.

Every research has some limitations. One restraint of this research is about the gathering of the data. The researcher collected data 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 certain 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 mediators like service quality and customer company identification for an enhanced consideration of CSR

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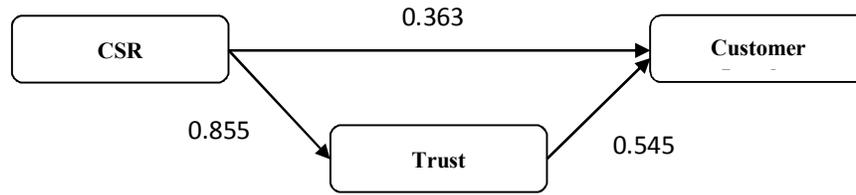


Figure-1

Table 1 (Statistical Quality indicator)

	AVE	CR	R ²		CSR	CL	CT
CSR	0.662	0.977	0.766	CSR			
CL	0.909	0.984		CL	0.845		
CT	0.909	0.968	0.731	CT	0.883	0.883	-

Table 2 (Indirect effect for mediation Analysis)

Hypothesis	Relationship	Indirect effect	SE	t-value	5% LL	95%UL	Decision
H4	CSR-> Trust-> Loyalty	0.466	0.116	4.007	0.266	0.633	Supported