

Enhancing Customer Loyalty of Banks through Corporate Social Responsibility: A Conceptual Framework

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Abstract:-Corporate social responsible engagements are the one of the increasing popular marketing strategy to create customer loyalty particularly in the retail banking industry. Hence, in this study researchers present a conceptual framework which aims to enhance the customer loyalty through Corporate Social Responsibility (CSR) in the context of retail banking industry in Sri Lanka. Further the research model presents the mediating effect of customer satisfaction in between CSR and customer loyalty. The proposed model is an extension of the study conducted by Ellen, Webb, and Mohr (2006). The model comprises Corporate Social Responsibility (CSR) as an upstream variable, Customer Loyalty (CUL) as a downstream variable, and Customer Satisfaction (CUS) as a mediating variable. Relationships between these constructs are discussed, together with research hypothesis. Further, this study is much needed to empirically test to get the new cues on the subject of CSR of the Sri Lankan Consumers' perspective. Research implications of the conceptual model are presented, as directions for future research, which would be of use to researchers and practitioners in the societal marketing field.

Keywords: Corporate Social Responsibility, Customer Satisfaction, Customer Loyalty, Consumer Attribution Theory, Retail Banking

I. INTRODUCTION

Loyal customers are the contributors of greatest value to companies, so in turn, companies try to retain their customers with much effort. Because it has been proved that, it is cheaper to retain existing customers than attract new ones (Stanisavljević, 2017). In this supportive view, creating and maintaining customer loyalty helps companies to develop long-term, mutually beneficial relationships with customers (Pan, Sheng, & Xie, 2012). Besides the loyal customers exhibit attachment and commitment toward the company and are not attracted to competitors offerings (So, King, Sparks, & Wang, 2013). Moreover, loyal customers are willing to pay more, express higher buying intentions and resist switching (Evanschitzky et al., 2012). In this sense, it is imperative for firms to have loyal customers (Kandampully, Zhang, & Bilgihan, 2015) and this customer loyalty entice them to achieve long-term competitive advantages (Aksoy, 2013).

In this context, Corporate Social Responsibility (CSR) has recently been acknowledged as one of the most emerging

factor in enhancing loyalty and patronage among customers (Huang, Cheng, & Chen, 2017; J. S. Kim, Song, Lee, & Lee, 2017; Pratihari & uzma, 2017). Particularly, CSR has been the subject of growing debate in social sciences and business studies (Jamali & Karam, 2018). Indeed, CSR strategies can improve the company image and reputation (Lai, Chiu, Yang, & Pai, 2010), increase the purchasing intention of consumers (Vyas & Raitani, 2015), increase customer satisfaction (Chung, Yu, Choi, & Shin, 2015), build and strengthen the relationship between customers and the organization (L. Su, Pan, & Chen, 2017), and finally, which in turn drives the loyalty among customers (Nyadzayo, Leckie, & McDonald, 2016).

There have been several definitions define the term CSR and its meaning. Generally, there are two major schools of thought in defining CSR (Schwartz & Carroll, 2008), one is based on organizational perspective and the other is consumers' perspective. The literature shows that scope of interest in CSR activities and their consequences are discussed both organizational perspectives (McWilliams & Siegel, 2001; Slack, Corlett, & Morris, 2015) and consumers' perspective (Ellen et al., 2006). However, the majority of the literature on this topic takes a management perspective (van Doorn, Onrust, Verhoef, & Bügel, 2017). There are very limited studies that have examined how consumers perceived firm's CSR initiatives (Ailawadi, Neslin, Luan, & Taylor, 2014). Therefore, in this study researcher develop a conceptual model to test the impact of CSR on customer loyalty on consumers' perspective. In addition to that, this study is to verify how the relationship between CSR and customer loyalty mediated by customer satisfaction. Because customer satisfaction is accepted as one of the most important contributors to consumer's preference for service providers (Eid & El-Gohary, 2015) and it is an important input to customer loyalty (Leppäniemi, Karjaluoto, & Saarijärvi, 2017).

In this senses, there have been a number of studies, emphatically investigating the influence of CSR and its impact on customer loyalty. Since the concept of CSR is not as popular in emerging economies as it is in the Western countries (Islam & Deegan, 2010; Perez-Batres, Miller, &

Pisani, 2010; W. Su, Peng, Tan, & Cheung, 2016). Therefore, academic and scholars in the emerging counties located in South Asia, South East Asia and Africa are giving more consideration on CSR initiatives (Lu, Liu, & Rahman, 2017; O.-I. Moisescu, 2017; Ramlugun & Raboute, 2015). Whereas, in the Sri Lankan context, concept as CSR practice is emerged as an important strategic tool in the recent years (Munasinghe & Malkumari, 2012; Ruwanpura, 2016). After the end of thirty years of ethnic war, Northern part of Sri Lanka is becoming a centre of new and tremendous business opportunities due to the economic and political stability of the country. In this regard, several banks and financial companies are penetrated in to this market to capture the market. Even though, the problem is how to create the loyal among customers. Because the loyalty is the main concern specially for banks to survive in the long term stand point and the customer loyalty will give the benefit to the banks in terms of strategy formulation and implementation (O.-I. Moisescu, 2017). Therefore, banks which are operating in this region use corporate social responsibility as a key strategy to create the loyal among customers. In this scenario, this study is motivated by the authors' interests in examining the CSR in the Sri Lankan context. Due to that, this study is proposed a conceptual model to assess the impact of consumer's perceived CSR on customer loyalty among the customers of the commercial banks in Northern part of Sri Lanka.

II. OVERVIEW OF LITERATURE REVIEW

CSR

Despite numerous efforts to bring about a clear and unbiased definition of CSR, there is still some confusion as to how CSR should be defined. The definitions of CSR have evolved over the years. While writings on CSR can be traced back to the 1930s and the 1940s, the publication of Bowen's book "Social Responsibilities of the Businessman" in the year of 1953 initiated the modern period of literature regarding CSR (Carroll, 1999). H. R. Bowen (1953), the "Father of corporate social responsibility", first coined the term CSR in the 1950s, because he believed that many large corporations have gained significant powers and their decisions have a great influence on people's livelihoods, and they should therefore have certain obligations to society (H. R. Bowen, 1953; Carroll, 1999). H. R. Bowen (1953) defined CSR 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" (Bowen, 1953, p. 6). Some scholars, like Frederick (1960), who are influential in the field, echoed Bowen's view, believing that corporations should manage their business operations in order to fulfill the public's expectations and improve socio-economic welfare (Frederick, 1960).

Since the 1960s, other scholars have started to refine the definition of CSR, making it more precise. Many scholars like McGuire, Sundgren, and Schneeweis (1988), Wood (1991), and Carroll (1979) have also agreed that corporations should

have an obligations to society which means, "CSR's driving force is society's expectations". Further, his famous pyramid of responsibilities has four dimensions, such as economic and legal responsibilities that are 'required', whereas ethical responsibilities are 'expected', and philanthropic responsibilities are 'desired' by society. More prescriptive still, Ogrizek (2002) argues that the scope of CSR is "much broader than charitable activities, philanthropy and community involvement" and includes environmental management systems and human resources policy.

More specifically, Berger, Cunningham, and Drumwright (2007) pointed out that, generally researchers investigated the CSR from two perspectives. One stream of research has come from the management literature which focuses whether a company should engage in CSR activities, and do these activities have any influence on financial performance. Another stream of research is from marketing literature and has focused on how consumers perceive the CSR activities at an individual level. Both marketing and management literature has addressed this topic for many decades (Shin & Thai, 2015). Most of the research on CSR has focused on the stream of organization perspective (Quazi & O'brien, 2000; Yang & Rivers, 2009). However, scant research has investigated the CSR strategies on consumers' perspective (Fatma & Rahman, 2015; S. Kim, 2011; Marin, Ruiz, & Rubio, 2009; Pirsch, Gupta, & Grau, 2007). Along the line of above arguments, there should a need to ground the study on CSR and its impact on customer loyalty in consumer's perspective.

CSR on Consumers' perspective

CSR was considered to be simply support for charity by corporations in the past, recent studies attribute a strategic importance to CSR as it allows firms to benefit financially through positive publicity and goodwill and by creating societal value (D. Lee, Moon, Cho, Kang, & Jeong, 2014). In the above scenario, CSR activities are increasing in profit oriented industries and it becomes vital to know whether consumers perceive these activities as profit oriented or value oriented. In this context of CSR, it is said that a consumer's favourable attitude towards a social program is likely dependent on certain attributions he/she about the reasons behind an organization's actions (Du, Bhattacharya, & Sen, 2007; Ellen et al., 2006; Klein & Dawar, 2004; Menon & Kahn, 2003; Sen, Bhattacharya, & Korschun, 2006). In line with Brown and Dacin (1997), an attribution is what an individual knows or feels about a particular organization, and what individuals accept as true can, in the end, affect various organizational responses (Walker, Heere, Parent, & Drane, 2010).

A recent research studied by Ellen et al. (2006), showed that consumer responses to CSR actions are more complex than traditionally viewed. According to the researchers, consumers attribute multiple and specific corporate motives which are basically profit-centred (egoistic and strategic driven) or

benevolence-centred (values and stakeholder driven) attributions. When consumers think that the company's CSR activities are profit-centred it means firms are doing these actions for their own well-being rather than for society. For example, egoistic driven motivations mean that the first aim of firms in doing CSR activities is to use the cause for their own benefit instead of helping society. In a similar vein, strategic-driven motives are again self-centered attribution implying that firms are supporting CSR events as they want to achieve some business goals (e.g., increase market share, increase brand awareness, create positive impression) and use

these social causes as tools to accomplish their goals. On the other hand, benevolence-centred motivations are related to helping society's needs first and not using those social causes for the company's own interest. Such as, in stakeholder motivation, consumers believe that firms make CSR actions because they want to please their stakeholders. Also, value-driven motives are related to benevolent intentions. In this situation, it is believed by consumers that firms care about society and behave in a moral behaviour. The following figure explains the antecedents of consumers' perceived CSR.

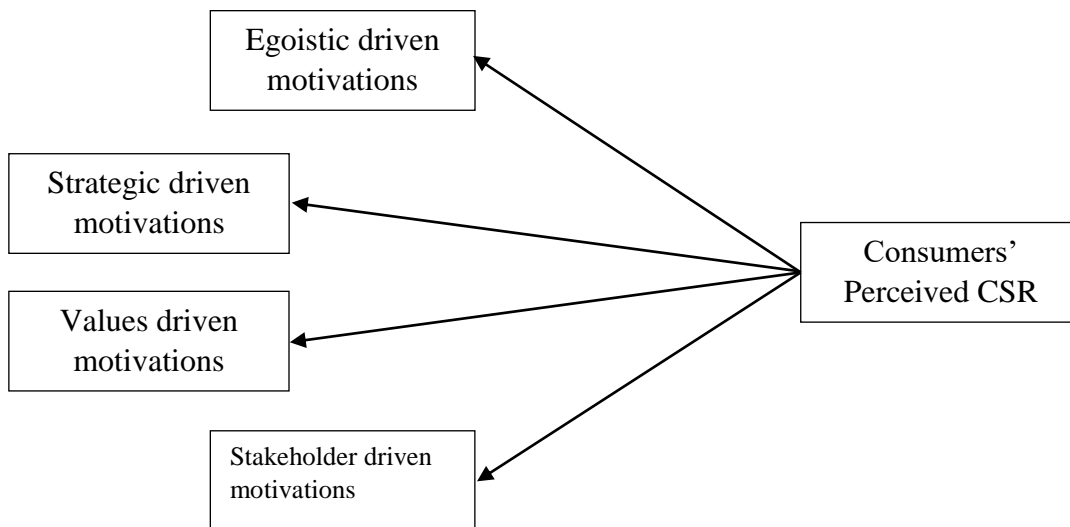


Figure 1: The antecedents of consumers' perceived CSR

Source: Ellen et al. (2006)

Stakeholder Theory and CSR

Carroll (1979) identified stakeholder theory as a coherent instrument to identify the stakeholders, which a company should consider in its decision-making process. Thus, stakeholder theory is compatible with CSR regarding the dilemma of which groups in society companies should be accountable for, and which roles the company should acquire (Matten & Crane, 2005). Crane & Matten (2010, pp. 62) define a stakeholder as, "[...] an individual or a group which either: is harmed by, or benefits from, the corporation; or whose rights can be violated, or have to be respected, by the corporation". In the normative literature of stakeholder theory, Freeman, Harrison, Wicks, Parmar, and De Colle (2010) distinguish between primary and secondary stakeholders. The primary group of stakeholders consists of financiers (shareholders, banks, etc.), employees, customers, suppliers, and communities (Freeman et al., 2010). The secondary group of stakeholders is identified as government, media, special interest groups, consumer advocate groups, and competitors (Freeman et al., 2010).

In line with Freeman et al. (2010), the role of the manager is to create value for all stakeholders without making disruptive trade-offs, which could harm the individual stakeholder. Due to the differing interests in the company's decision-making process, the objective of management, in accordance to the stakeholder approach, is to create congruence and identify sustainable solutions benefitting all stakeholders (Freeman et al., 2010). In extension of the conception of stakeholder legitimacy, Crane and Matten (2010) suggest that companies are obliged to allow stakeholders to take part in managerial decisions, which could substantially affect the welfare of these stakeholders. Thus, Crane and Matten (2010) advocate a sort of stakeholder democracy, which would allow stakeholders to influence and control corporate decisions.

Consumer Attribution Theory (CAT)

Consumer Attribution Theory (CAT) explained how people infer from self-concept and subsequently affect their attitude and behavior (Heider, 2013). According to Bitner (1990), attributions are what people perceive the reason behind their behavior or the events they observe. Attribution is made via observing a single individual's behavior toward a stimulus

object at one point in time. Hence, psychologists inferred that individual's perception would act on the stimulus object rather than the object itself (Sparkman Jr & Locander, 1980). Foreh and Grier (2003) clarify that attribution theory is the process that consumers evaluate marketer motives and how these motives influence consumer subsequent attitude and behavior. Consumers highly concern and evaluate corporate engaging social responsible activities; thus, corporations effort to increase its reputation, image (Lai et al., 2010), consumer loyalty, trust (Martínez & del Bosque, 2013), consumer behavior (Becker-Olsen, Cudmore, & Hill, 2006), consumer satisfaction (Hsu, 2012) by engaging CSR.

Customer Loyalty

Customer loyalty has become a principal strategy for most financial institutions because of hyper-competition and increasing globalization of the financial markets (Clemes, Gan, & Zhang, 2010). Due to that the banking industry must develop strong relationships with their customers in order to compete successfully in the competitive retail banking environment. Though, developing, maintaining and enhancing customer loyalty is a complex practice and is often considered a managerial challenge (J. T. Bowen & Chen McCain, 2015; Dick & Basu, 1994). As a result, "Customer loyalty" has emerged as the heart of the consumer marketing literature (Blut, Beatty, Evanschitzky, & Brock, 2014). The concept of customer loyalty and its importance in contemporary business is widely acknowledged and pursued by corporate executives.

Furthermore, building a loyal customer base has not only become a major marketing goal (Mandhachitara & Poolthong, 2011), but it is also an important basis for developing a sustainable competitive advantage (Dick & Basu, 1994). Pursuing this line of argument, it has been suggested that in the banking sector, marketers focus on enhancing CSR activities for maintaining customer loyalty (Chaudhury, Das, & Sahoo, 2012). In support of this view Van Den Berg and Lidfors (2012) pointed out that, an organization develops a long-term, mutually beneficial relationship with its customers by creating and maintaining customer loyalty. Based on existing studies customer loyalty has been heavily segmented in behavioral theory literature. The different views on loyalty allow for a distinction between a stochastic, deterministic and composite approach (Van Den Berg & Lidfors, 2012). A review of the literature brings out these three ways to define loyalty. First, there is the stochastic approach, which is purely behavioral. Then, there is the deterministic approach that considers loyalty as an attitude. Lastly, a combination of these approaches is called composite loyalty. Through these dimensions, loyalty is said to evolve from the act of purchase, to customer satisfaction, to customer trust, to customer commitment to finally customer loyalty (Bandyopadhyay & Martell, 2007; Bediako, 2017; Chaudhuri & Holbrook, 2001; Dick & Basu, 1994; East, Gendall, Hammond, & Lomax, 2005; Jacoby & Kyner, 1973; Odin, Odin, & Valette-Florence, 2001; Rundle-Thiele, 2005; Tucker, 1964; Uncles,

Dowling, & Hammond, 2003; Van Den Berg & Lidfors, 2012).

The effects of CSR on customer loyalty

Prior research has exhibited that CSR has an significant impact on consumers' attitudes, purchase intentions, consumer-company identification, satisfaction and loyalty (Chung et al., 2015). Thus Raman, Lim, and Nair (2012) noted that the existing literatures on CSR shows a growing emphasis on consumer behavioural studies. CSR has become a powerful tool to build and maintain customer loyalty. Because customer loyalty is an essential customer behaviour that influence firm's reputation, profit and financial performances (C.-Y. Lee, Chang, & Lee, 2017; Martínez & del Bosque, 2013; Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009). Sen et al. (2006) exposed that the awareness of CSR initiatives of a company made customers willing to be associated with the company by seeking for employment opportunities and buying their products or service rather than customers who are unaware of CSR.

Besides, Mandhachitara and Poolthong (2011) studied the relationship between CSR and loyalty, and their results indicated that CSR has a significant, positive effect on customer loyalty. Chen, Chang, and Lin (2012) also indicated that social responsibility has a marginally significant, and positive association with customer loyalty. In addition to that there are several studies show a positive link between CSR and loyalty (Ailawadi et al., 2014; Bediako, 2017; Diallo & Lambey-Checchin, 2016; Mohr & Webb, 2005; Samra & Wady, 2017; Stanaland, Lwin, & Murphy, 2011; Van Den Berg & Lidfors, 2012). In this sense, the researchers propose the following hypothesis:

III. H₁: CONSUMER'S PERCEIVED CSR INFLUENCES CUSTOMER LOYALTY.

Customer Satisfaction

Customer satisfaction is an important element of improving the competitive advantage and retaining customers. Therefore, customers play a pivotal role in marketing paradigm. Enhancing customer satisfaction is an ultimate objective of marketers in this hyper competitive business world. Due to that reason, nowadays organizations seeks for a ways to achieve higher level of customer satisfaction (Samra & Wady, 2017). In line with Fang, Chang, Ou, and Chou (2014), customers expect value addition from their marketers, so marketers have the responsibility to deliver superior value to their customers (Kotler & Armstrong, 2010).

Based on Oliver (1993) customer satisfaction links the purchase/consumption to post-purchase phenomena such as repeated purchase and positive word-of-mouth.

Additionally, Oliver (1999) explained that "customer satisfaction occur when customers compare between the actual performance of the provided services verse their expaectations and any discrepancy between the two generates

disconfirmation which can be of three types: (1) Positive disconfirmation: high satisfaction (2) Negative disconfirmation: high dissatisfaction (3) Zero disconfirmation". Further he stressed that satisfaction is the customer's fulfillment response. From a service perspective, satisfaction is considered as an affective customer condition that results from a global evaluation of all the aspects that make up the customer relationship with the service provider.

CSR and Customer Satisfaction

More firms today are beginning to realize the importance of CSR and its impact on societal wellbeing (Raman et al., 2012). CSR is viewed as one of the critical elements to contribute value to customer and to society, and it differentiates firms from their competitors (Revilla-Camacho, Cossío-Silva, & Palacios-Florencio, 2017). Therefore, Lichtenstein, Drumwright, and Braig (2004) suggests Good corporate social involvements can improve customer identification and customer support and then create benefits for the company. Interestingly, in practice more companies adopt the idea that socially responsible behavior generates positive consequences, such as increased customer satisfaction (Van Den Berg & Lidfors, 2012).

CSR can also influence the consumers' response towards a product by creating associations (Brown & Dacin, 1997). Brown and Dacin (1997) further suggests that positive CSR associations lead to positive evaluations of the firm and consequently have positive effects on product evaluation and satisfaction. Similarly, negative associations (for example unethical company behavior) lead to negative evaluations of the firm and the product satisfaction. Folkes and Kamins (1999) also proved that providing positive CSR information to the customer, positive associations can lead to positive customer behavior. In their research, however, Sen and Bhattacharya (2001) found that a positive company evaluation is only triggered by CSR if the person highly identifies with the company. In addition, the recent research noted that, CSR activities have significantly and positively correlated with customer satisfaction, as well as with the strength of the relationship between organizations and their stakeholders (Arikan, Kantur, Maden, & Telci, 2016; Chung et al., 2015; Loureiro, Sardinha, & Reijnders, 2012; Luo & Bhattacharya, 2006; O. I. Moisescu, 2015; Peloza & Shang, 2011). In light of the preceding discussion and findings, it is proposed that:

IV. H2: CONSUMER'S PERCEIVED CSR INFLUENCES CUSTOMER SATISFACTION.

Customer satisfaction and Customer loyalty

Loyalty is the most powerful outcome of consumer satisfaction. The researchers who investigated loyalty in the banking sector have attributed it as a function of customer's satisfaction with the bank (Ladhari, Ladhari, & Morales, 2011). The customers who are loyal spend much more than others and also spread positive word-of-mouth about the bank's service offers (Amin, Isa, & Fontaine, 2013). Once the

customers are loyal, they will generate positive word-of-mouth about the bank, will spend more, and will be less prone to switching to other service providers (Samra & Wady, 2017). Furthermore, Due to the severe competition and rising customer expectations, firms are highly interested in keeping existing customers than attracting potential customers (Homburg & Giering, 2001). In this regard, firms are encouraging repeat purchase and it became a strong interest in the antecedents of customer loyalty. Saeidi, Sofian, Saeidi, Saeidi, and Saaeidi (2015) emphasized that customer satisfaction is thought of as an immediate antecedent to customer loyalty. However, attaining higher levels of customer satisfaction and customer loyalty, especially in the services sector, may be a tough task for marketers (Blut et al., 2014; J. T. Bowen & Chen McCain, 2015; Kursunluoglu, 2014).

Additionally, there is an ongoing consensus in marketing literature regarding the close relationship between customer satisfaction and loyalty. Therefore, academics and practitioners all over the world have special emphasized on the utmost importance of customer satisfaction and customer loyalty as a part of their survival in the financial world (Arokiasamy, 2013). Customer satisfaction is a good basis for customer loyalty (Shin & Thai, 2015) and several studies demonstrated that customer satisfaction has a positive impact on customer loyalty (Aurier & N'Goala, 2010; Bolton, Kannan, & Bramlett, 2000; Hur, Kim, & Park, 2013; Martínez & del Bosque, 2013; Oly Ndubisi, 2007; Servera-Francés & Arteaga-Moreno, 2015). The preceding discussion indicates a strong connection between Customer satisfaction and customer loyalty. Therefore, in this study, we propose that:

V. H3: CUSTOMER SATISFACTION INFLUENCES CUSTOMER LOYALTY

Mediating role of Customer Satisfaction between

Sen et al. (2006) indicated that CSR creates a favourable context which positively boosts consumers' evaluation and attitude towards the firm. Specifically, recent work on consumer behavioural studies suggest that CSR initiatives contribute a key element of enhancing customer satisfaction and that can create loyal among the customers (Luo & Bhattacharya, 2006). Moreover, CSR create a good image and reputation in the mind of consumers (Alafi & Hasoneh, 2012). CSR also acts as a buffer against customer turnover, market crisis, higher cost, etc (Pirsch et al., 2007). S. Lee and Heo (2009) claimed that customers tend to more satisfied with the firm when it associated with socially responsible activities. Apart from that CSR was proven to directly lead to customer satisfaction (Carvalho, Sen, de Oliveira Mota, & de Lima, 2010; Smith, 2003), which often resulted in loyalty (Luo & Bhattacharya, 2006; Saeidi et al., 2015). Further, Pirsch et al. (2007) pointed out that research could also explore the mediating role of satisfaction between CSR and customer loyalty. This discussion also suggests that CSR has direct effects on customer satisfaction, and customer satisfaction has

a direct effect on customer loyalty. It is widely agreed that customer satisfaction leads to customer retention (Anderson & Sullivan, 1993), purchase intentions (Anderson & Mittal, 2000) and word-of-mouth (Anderson, 1998). Besides, Chung et al. (2015) proved that CSR and customer satisfaction are positively related to customer loyalty. Therefore, researcher expects customer satisfaction may mediate the effect of CSR on customer loyalty. In linking this evidence which reinforces our hypothesis:

VI. H4: CUSTOMER SATISFACTION MEDIATES THE RELATIONSHIP BETWEEN CSR AND CUSTOMER LOYALTY.

Based on previously discussed literature review and hypothetical relationships, a conceptual model has been proposed by the researchers, which is illustrated in Figure 2. This model depicts the influence of consumers' perceived CSR on customer loyalty with adaptation to customer satisfaction as a mediator in that influence.

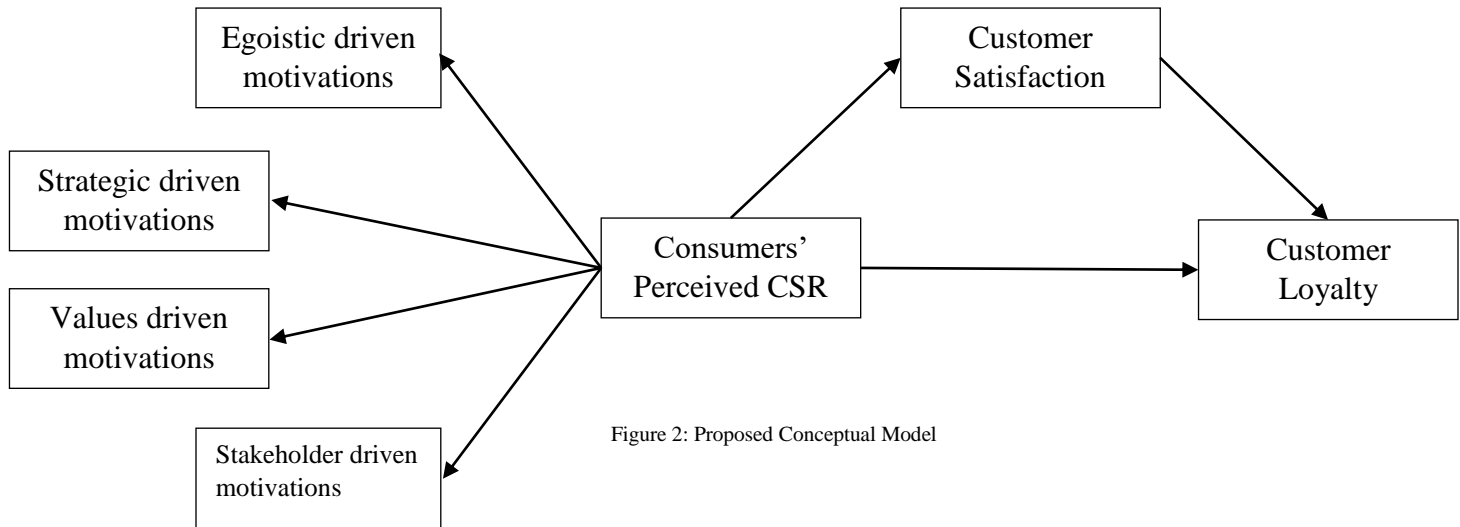


Figure 2: Proposed Conceptual Model

VII. CONCLUSION AND FUTURE RESEARCH DIRECTION

The purpose of this study is conceptual rather than empirical, that is, it proposes a theoretical framework for enhancing customer loyalty among banking customers. Thus the proposed framework in this study provides a starting point for understanding the impact of consumers' perceived CSR on customer loyalty. Further the model presents the indirect (mediation) effect between CSR and customer loyalty through customer satisfaction. In particular, this conceptual model will be used to examine the customer loyalty of the retail banking customers in terms of banks' corporate social responsible practices. Here, researchers utilized the two main theories as Stakeholder Theory and Consumer Attribution Theory (CAT) to construct the conceptual model to predict the customer loyalty. Thus, the model may enable banks from the emerging countries like Sri Lanka to assess their CSR activities and how it helps to create the loyal among their customers. However, this study didn't test the model through the appropriate techniques to come to the generalization. Therefore, future researchers may take this model to empirically test the impact of consumers' perceived CSR on customer loyalty to check the level of generalization and the validity of the model. It is also proposed that structural equation modelling will be conducted to examine the fitness of the research model.

Future researchers in this field may focus on various theories to predict the customer loyalty related with retail banking sector. The proposed model can be improved by incorporating different mediating variables such as bank trust, bank image, bank identification, customer perceived value to explore the strengths between CSR and customer loyalty.

this model can be improved by the incorporation of additional variables

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