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"Global Goals, Local Actions: Looking Back and Moving Forward"

How Corporate Social Responsibility (CSR) in Banking Industry Affect to Customer Loyalty

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Abstract

The purpose of this research was to study how corporate social responsibility (CSR) in banking industry affect to customer loyalty. The samples used in the study were collected from 385 respondents through the offline questionnaires. The statistics used in the data analysis were descriptive statistics which are percentage, mean, standard deviation and the inferential statistics used to test the hypothesis are multiple regression analysis.

The result of this research showed that the most of respondents were female between the ages of 24 and 31 years old with bachelor degree. Moreover, the most of respondents were the private company employee with the income of under 15,000 Baht. The results of the hypothesis test showed that the most component which affects to customer loyalty in banking industry is economic responsibility then environmental responsibility, corporate governance, and philanthropic initiatives severally. However, ethical business practices did not affect to customer loyalty in banking industry.

Key words: *Corporate Social Responsibility, Customer Loyalty, Banking Industry*

Introduction

Nowadays, many organizations in society turn their attention to Corporate Social Responsibility which they operates both inside and outside the organization by taking into account the impact of the society with the use of resources in the organization or outside the organization to live together in society. The importance is Corporate Social Responsibility, it will make the organization recognized from social, not socially resisting and able to run its business sustainably with the morality of the organization for being aware of giving back to society in various ways (Promdougta, 2016).

CSR promotes a better social image of the organization, and uses less capital and money than advertising campaigns because it draws customers and non-clients into social events. In terms of direct benefits of CSR, employees are proud of working with



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organizations, at the same time, it can attract qualified people to work with the organization (Corporate Social Responsibility Institute 2009: 14). Moreover, it can make the organization increasing the revenue and market share because the trend of customers who purchase products and service from organizations who have corporate social responsibility are increasing. Another benefit of CSR, indirect benefit, is customers will be loyalty to the brand by doing CSR activities with marketing (Weerasamrit, 2010).

Many business operators in Thailand recognize the importance of doing business to show their corporate social responsibility and take this issue to the next level. This is an operational strategy that will benefit the organization in terms of upgrading and developing the organization's management process which includes branding, brand loyalty, and brand confidence that will eventually lead to the loyalty of customer. Banking industry as well, there is the high competition in this industry, each banks use many strategies to motivate consumers to trust and using their services because banks are financial service that is difference with tangible products. Many financial institutions are turning their attention and strategizing on customer trust and customer loyalty by building a good relationship with customers, it is the best way to start creating trust is often based on intimacy and commitment. Therefore, the products and services, which want to stand in the market by creating trust and credibility for making customer loyalty, need to accelerate good relationship with customers continuously. In addition, nowadays, Corporate Social Responsibility became an important topic in the management and activity of banks (Hinson, 2007). The banking industry is concerned with offering a full set of financial services. Changes in the technology, environment and customer demand call for the need and possibility for quick changes in strategy. As customers' wealth and demands increased, banks developed their services to include innovation service, variety product, and advisory services, including legal advice. Even though the banking industry move forward to develop the core product and service, the leading banks are exploring to another strategy (Holstius & Kaynak, 1995: 10-20). As a result, many leading banks have begun to integrate CSR factors within their long-term investment strategy.

From this information, the researcher needs to study how Corporate Social Responsibility (CSR) affecting to customer loyalty in banking industry by studying the organizing activities and projects, and Corporate Social Responsibility (CSR) to: corporate governance, safety, environment, and social involvement in banking industry. Furthermore, the result of this study will be the ways for banks to use it for developing Corporate Social Responsibility strategy to develop good relationships with customers and use to the management planning to create and promote the corporate image.



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Purposes of Study

To examine the effect of Corporate Governance, Environmental Responsibility, Philanthropic Initiatives, Ethical Business Practices, and Economic Responsibility components of CSR on customer loyalty in banking industry.

Scope of research

1. The respondents of this study are male and female banking customers who are generation X&Y, 24-53 years old or born in 1965-1994 (Jamnongvej, 2013). Samples were selected from the population by convenient sampling method and used 385 samples that the sample size is determined by using the formula of W.G. Cochran (1953) for calculating the population, using the 95% confidence level and the maximum error value is 0.05.

2. There are two variables in this research which are independent variable (corporate governance, environmental responsibility, philanthropic initiatives, ethical business practices, and economic responsibility) and dependent variable (customer loyalty in banking industry).

3. The specific of time is on August - September 2018.

Literature Review

The concept of customer loyalty has many researchers define the meaning such as Newman and Werbel (1973) defined it as a characteristic of those who repurchased a brand, considering only that brand, without seeking any information related to it. Day (1969) opined that in its most initial stage of conception, customer loyalty was perceived as the combination of repeat purchases from one service provider or brand coupled with the customers' psychological attachment toward the provider. Dick and Basu (1994) described loyalty as the strength of the relationship between a customer's relative attitude and repeat patronage and four dimensions had been identified: true loyalty, latent loyalty, spurious loyalty and no loyalty. In summarize, the meaning of customer loyalty is the deep commitment of customers to repurchase products or service by their satisfactions. Moreover, customer loyalty is also involved with the purchase behavior of customers and relate to customer attitudes toward products and services. Consequently, if customers have the good attitudes toward products and services and have long-term good relationships between customers and organizations, it will resulted in a repeat purchase behavior. In addition, Kotler (1991:274) said customers have the different levels of brand loyalty that can divide to four groups of loyal buyers: hard-core loyals, soft-core loyals, shifting loyals, and switchers. For the advantages of customer loyalty which can affect to organizations, Weerasamrit (2010) divided to 8 parts such as maximizing profits, reduce marketing and make your competitors difficult to market, reduce cost of sales, enhance negotiating power



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with distributors and retailers, make new products easier, satisfied customers will be referred to, satisfied customers are willing to pay more, and cross selling.

Regarding to the concept of Corporate Social Responsibility (CSR), World Business Council for Sustainable Development (1999) described CSR is commitment to business continuity in the pursuit of ethical conduct and participation in economic development by improving the life quality of the workers and their families. International Organization for Standardization (ISO) defined CSR is the organization responds to economic, social and environmental issues by focusing on providing the main benefits to people, communities and society. The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Archie B. Carroll, 1979: 500). In summarize, CSR is running business by considering the benefits of people, communities, society and the environment under ethic and good corporate governance to be succeed in a sustainable business (Corporate Social Responsibility Institute, 2009: 6). Besides, Corporate Social Responsibility Institute (2009: 8-23) still defined CSR practices to five components which were corporate governance, environmental responsibility, philanthropic initiatives, ethical business practices, and economic responsibility.

Philip Kotler and Nancy Lee (2005) classified Corporate Social Responsibility's activity to six types which were cause promotion, cause-related marketing, corporate social marketing, corporate philanthropy, community volunteering, and socially responsible business practices. Regarding to CSR activities with considering in the order of the CSR, it is found that the first three activities involve speech behaviors. In other words, it is the marketing communication that is used to conduct activities outside the organization (Social-driven CSR). The following three activities are related to behavioral behavior or it is used to conduct activities inside the organization (Corporate-driven CSR). If considering in business process, CSR in order Corporate-driven CSR can also be classified as CSR division that is in business process (CSR in process) with CSR, those outside the business process or occur later, separately from the business process (CSR after process). In addition, Arthur D Little" (2002) founded that there are eight ways about benefits of CSR for business sector such as trust management, benefits of risk management, benefits of selection and motivation to work and retain good employees to stay with the company, benefits of investor relations and access to capital, learning and Innovation, competitive capability and market position in CSR, performance of the operation, and social acceptance of the operation.

From the literature review, the concepts of customer loyalty and CSR can be summarized into the conceptual framework in figure 1 and the hypothesis is:

H1: Corporate governance component of CSR affects customer loyalty in banking industry.



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H2: Environmental responsibility component of CSR affects customer loyalty in banking industry.

H3: Philanthropic initiatives component of CSR affects customer loyalty in banking industry.

H4: Ethical business practices component of CSR affects customer loyalty in banking industry.

H5: Economic responsibility component of CSR affects customer loyalty in banking industry.

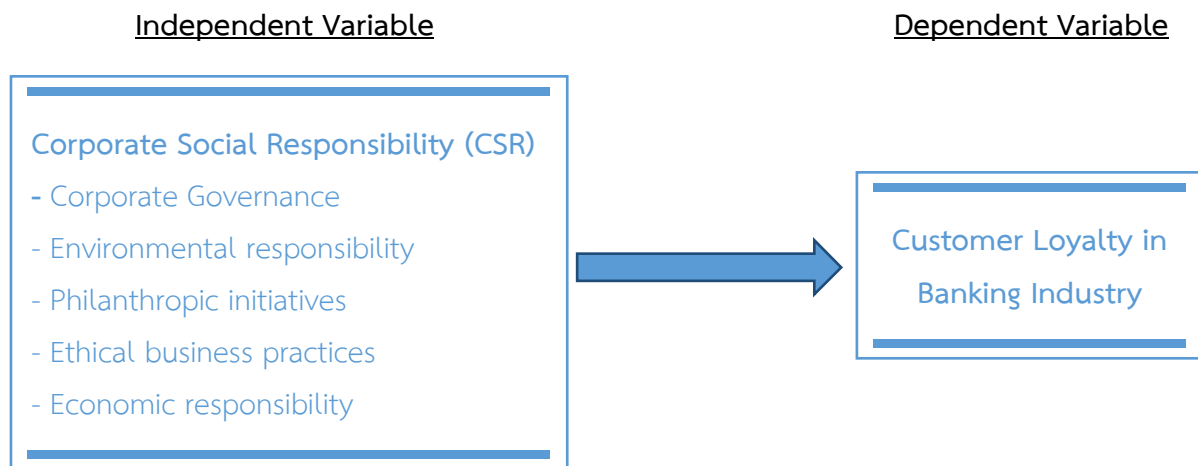


Figure 1: Conceptual Framework

Research Methodology

The population used in this research is male and female banking customers who are generation X&Y, 24-53 years old or born in 1965-1994 (Jamnongvej, 2013). The samples used in the study were collected from 385 respondents through the offline questionnaires by using convenience sampling to collect samples at department store such as Siam Paragon department store, IT Square department store, Central Lat Phrao department store, Mega Bang Na department store, and Big C Rama 4 department store. The Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree) were employed for each of the question in the questionnaire. Moreover, the statistics used in the data analysis were descriptive statistics which are percentage, mean, standard deviation and the inferential statistics used to test the hypothesis are multiple regression analysis. Then, collect the research via computer program to test reliability coefficient with Cronbach's Coefficient Alpha analysis the value must not less than 0.7 (Vanichbuncha, 2016) and the results are divided into the following:



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Table 1: Cronbach's Coefficient Alpha of Corporate Social Responsibility (CSR) in banking industry and customer loyalty

Variable	Sample (n=385)	
	Total of questions	Cronbach's Coefficient Alpha
Corporate Governance	3	0.884
Environmental Responsibility	3	0.769
Philanthropic Initiatives	4	0.919
Ethical Business Practices	4	0.864
Economic Responsibility	4	0.831
Customer loyalty in banking industry	5	0.886

From the table1, the questionnaire was tested with 385 samples, the result of each questions are Corporate Governance 0.884, Environmental Responsibility 0.769, Philanthropic Initiatives 0.919, Ethical Business Practices 0.864, Economic Responsibility 0.831, and Customer loyalty in banking industry 0.886 which mean these questions have the reliability and clearly to understand because the value of Cronbach's Coefficient Alpha analysis is more than 0.7.

Research Findings

The majority of respondents were female (64.7%) between the ages of 24 and 31 years old (46.5%) with bachelor degree (67.0%). Moreover, the majority of respondents were the private company employee (61.8%) with the income of under 15,000 Baht (39.0%). In addition, the majority of respondents used the service of Kasikorn Bank PCL. (40.4%), having accounts and debit cards (36.9%) with being banking customers for 3 years (83.4%). The frequency of using banking service at branch was 1-5 times per week (28.6%) and using online banking service was 1-5 times per week (49.1%). Finally, the majority of respondents chose banking service because they thought the bank had the brand trust and the good image (26.3%) and they knew the banks from seeing the branches (51.9%).



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Table 2: The testing result of relationships between independent variables in corporate social responsibility (CSR) with customer loyalty in banking industry

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	0.549	0.195		2.821	0.005
Corporate governance	0.213	0.157	0.196	3.764	0.000
Environmental responsibility	0.180	0.047	0.199	3.825	0.000
Philanthropic initiatives	0.155	0.044	0.182	3.487	0.001
Ethical business practices	0.067	0.085	0.063	0.797	0.426
Economic responsibility	0.226	0,072	0.208	3.135	0.002
Adjusted R Square = 0.485			Sig = 0.000		

From table 2, when considering the standard coefficients (beta) was found that the CSR variables were correlated with customer loyalty in banking industry in 4 components: corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility. Adjusted R Square had the value was 0.485 and the Sig. value was 0.000 that means the Corporate Social Responsibility (CSR) variables which were corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility can describe the change of customer loyalty level in banking industry with 48.5% statistically significant. The coefficient (B) of Corporate Social Responsibility in corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility had a positive relationship with customer loyalty in banking industry. It can be explained the samples suggests that if corporate social responsibility (CSR) in corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility increased by 1 unit each without the influence of other variables involved, samples will have the loyalty level increased 0.213 unit, 0.180 unit, 0.155 unit, and 0.226 unit severally.

Discussion

From the hypothesis testing, Corporate Social Responsibility (CSR) in banking industry affecting customer loyalty at the 0.05 level of significance was corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility severally. In term of corporate governance, Muthaffar Younes Al-Qudah (2012) found a high level of importance of corporate governance in Jordanian Bank with customer loyalty by



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transparency financial report can create good image of bank and trust worthiness toward existing customer. For, environmental responsibility, Wendy Barasa (2016) found environmental activities of Kenya Commercial Bank group would ultimately result to increase customer loyalty levels. The respondents confirm that they desire to continue dealing with the bank because KCB group supported environmental activities and also be the sponsoring tree planting events, creating awareness on the need to conserve environment and working with institutions like county government and Kenya forest service to improve sanitation, hygiene and tree planting efforts. Moreover, for philanthropic initiatives, Mona Younis Abo Samra (2017) found that bank clients are loyal to the bank and they liked the bank's philanthropic projects because Bank of Palestine well implemented the concept of philanthropic responsibility, it approved that the bank concerned with philanthropic responsibility toward its community by providing grants to support the local community such as supporting college students. Lastly, economic responsibility, Mohammed Masum Iqbal and Shah Alam Kabir Pramanik (2016) found that bank clients are loyal to the bank, clients answers they had a word of mouth to others to get the service of bank of Bangladesh because of good economic responsibility.

On the other hand, ethical business practices did not affect to customer loyalty in banking industry which complied with the study of Zia Khan, David Ferguson, Andrea Pérez (2015), The result was found that, regarding CSR perceptions, the findings demonstrate that customers fail to loyalty in ethical business practices in the banking industry but can indirectly stimulate customer loyalty through the establishment of customer trust and commitment in relationship quality because some respondents trust Pakistani banking industries do the business by ethical.

Managerial Implication and Recommendation for the Future Research

For the managerial implication, the researcher can recommend that effective corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector. Moreover, environmental sustainability is a key part of banking industry, banks should have established environmental policies, goals and practices that help guide their activities inside and out. In term of philanthropic initiatives, it is the strategy of banking industry to actively generate social impact by engaging in venture philanthropy and social investment. In addition, economic responsibility, banking industry should ensure that the financial institution are profitable in order to create long-term value for stakeholders and customers, and contribute to a global and sustainable economy. Lastly, banking industry should use the corporate social responsibility (CSR) to one of strategies to



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competitive each other because the banking customers who are generation X&Y give the importance to social responsibility especially corporate governance, environmental responsibility, philanthropic initiatives, and economic responsibility which can increase the loyalty from customers.

Regarding to recommendation for the future research, it should study about corporate social responsibility (CSR) relates with profitability of banking industry. Since this research studies about CSR and customer loyalty which could not directly reflect to the profit of banks. Moreover, the future research should study in other population especially generation B because this generation is in the period of a bank build-up, they will see all the changes that may be reflected in loyalty to the organization.

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