Corporate Social Responsibility in Cultivating Customer Loyalty: Intuitions from the Banking Industry

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Abstract

The purpose of the study is to analyze the impact of CSR on enhancing customer loyalty for banking institutions. The design of the research adopted for the study was descriptive and causal. For data collection, structured questionnaires were designed and administered via survey. The respondents targeted for the study were social media users, from which a sample

size of 103 was collected through convenience sampling. The data were then analyzed in detail by means of reliability analysis, descriptive statistics, correlation analysis, and regression analysis. Results showed that CSR initiatives, customer-centric approach, and economic benefits significantly influence customer loyalty.

Keywords: CSR Initiatives, Customer Centric Approach, Economic Benefit, Ethics, Customer Loyalty, Financial Institutions.

INTRODUCTION

Corporate Social Responsibility (CSR) embodies a business's commitment to ethically and sustainably address the interests of diverse stakeholders, such as employees, clients, communities, and ecosystems. This involves actively embedding moral, societal, and ecological priorities into core strategies and operations to foster enduring benefits and mitigate harm (Caroll 2010). CSR represents a framework through which companies acknowledge their accountability not only to their immediate stakeholders but also to the wider public and environment (Blowfield 2005). It can function as a theoretical model, a field of academic inquiry, a corporate strategy, or a visionary principle (Bice 2011).

A bank, as a financial intermediary, safeguards customer deposits and delivers services like loans, investment products, and mortgage solutions. By channeling capital and credit efficiently, banks serve a pivotal role in economic systems, empowering individuals and enterprises to navigate financial decisions and fund growth initiatives (Investopedia 2021). Customer loyalty refers to an enduring emotional connection that motivates clients to consistently choose a brand over alternatives. This allegiance stems from positive interactions and reliable experiences, cultivating mutual trust and reinforcing long-term engagement (Tubbs 2022).

Corporate Social Responsibility (CSR) has emerged as a significant strategic tool for businesses worldwide, including banking institutions, to foster goodwill, enhance brand reputation, and build stronger relationships with stakeholders. Despite the growing emphasis on CSR initiatives within the banking industry, there is a notable gap in research exploring the specific impact of CSR practices on customer loyalty in this sector (Smith 2018). By uncovering the intricacies of how CSR initiatives influence customer loyalty in the banking sector, this research aims to provide valuable insights for banks to tailor their CSR strategies effectively, enhance customer relationships, and drive sustainable business growth (Aguinis & Glavas, 2012).

Stakeholder theory asserts that businesses must account for the interests of all parties affected by their operations, such as customers. By participating in CSR efforts, banks signal their dedication to societal welfare, bolstering their public image and credibility, which can strengthen customer trust (Freeman, 1983). Customer actions, including loyalty, are shaped by their personal attitudes, social influences, and their sense of control over decisions. CSR initiatives can positively impact these elements, fostering more supportive attitudes toward banks that prioritize ethical and environmental responsibility (Ajzen, 1991).

Corporate Social Responsibility (CSR) initiative refers to an intentional, organized effort or project implemented by organizations to tackle societal, ecological, or moral challenges while creating meaningful benefits for communities and stakeholders outside its core commercial activities. It refers to a specific program, project, or action taken by a company as part of its Corporate Social Responsibility (CSR) efforts. These initiatives are typically designed to have a positive impact on society, the environment, or specific stakeholder groups, and they go beyond the company's core business activities (Matten & Moon 2008).

Customer-centric approach denotes a business philosophy that prioritizes customers as the focal point in all organizational decisions and operations. It focuses on comprehending and fulfilling customer demands and preferences to foster satisfying interactions and cultivate enduring connections. In today's dynamic market environment, fostering a customer-oriented philosophy is essential. This strategy entails proactively gathering customer input, analyzing feedback, and leveraging analytics to customize offerings, services, and promotional tactics aligned with shifting consumer expectations (Smith, J. 2020).

Economic benefits refer to the advantages or gains that individuals, businesses, or society as a whole derive from various economic activities, policies, or decisions. Economic benefits encompass a wide range of positive outcomes, such as the creation of new jobs, increased productivity, enhanced competitiveness, and a higher standard of living for citizens. They are the driving force behind economic policies and decisions, as they contribute to the overall well-being and prosperity of a nation (Smith, A. 2019).

Ethics constitutes the area of philosophy centered on moral principles and values, governing human conduct and choices by distinguishing between right and wrong. It encompasses the examination of ideas such as justice, equity, and moral integrity, aiming to establish structured criteria for assessing and formulating ethical decisions across diverse scenarios. Ethics, alternatively termed moral philosophy, is the academic discipline focused on discerning moral goodness from badness and rightness from wrongness. Additionally, the term extends to encompass structured systems or theoretical frameworks of ethical standards or ideals (Stanford 2019).

According to research by Mirza et al. (2023), which investigated CSR and consumer loyalty while assessing the moderating influence of consumer traits in a banking industry comparative study, younger, highly educated consumers exhibit stronger persuasion through CSR initiatives, with trust reinforcing their loyalty. Yusof (2015), in analyzing the effects of CSR efforts on customer loyalty, determined that customers are more inclined to sustain their engagement with financial institutions perceived as ethically responsible and socially oriented. Furthermore, the mediating function of customer satisfaction substantially influences the connection between CSR dimensions (e.g., environmental responsibility, community support) and customer loyalty. However, there has not been sufficient research regarding the impact of CSR on enhancing customer loyalty for banking institutions in context to Nepal. The study will investigate the relationship between CSR initiatives and customer loyalty within the context of banking institutions. It will explore the types of CSR activities most relevant to banking, the

mechanisms through which they affect customer loyalty, and the moderating factors that may influence the strength and direction of this relationship.

The research questions that are important to achieve the objectives of the research can be listed as below:

- What is the impact of CSR initiatives of banks on customer loyalty?
- What is the relationship between customer centric approach and customer loyalty?
- What is the impact of economic benefits on customer loyalty?
- What is the impact of ethics on customer loyalty?

    The general purpose of the study is to examine and analyze the impact of CSR on enhancing customer loyalty in banking institutions.

    The specific purposes of the study are as follows:

- To analyze the impact of CSR initiatives on customer loyalty.
- To study the impact of customer centric approach on customer loyalty.
- To analyze the impact of economic benefits on customer loyalty.
- To examine the impact of ethics on customer loyalty.
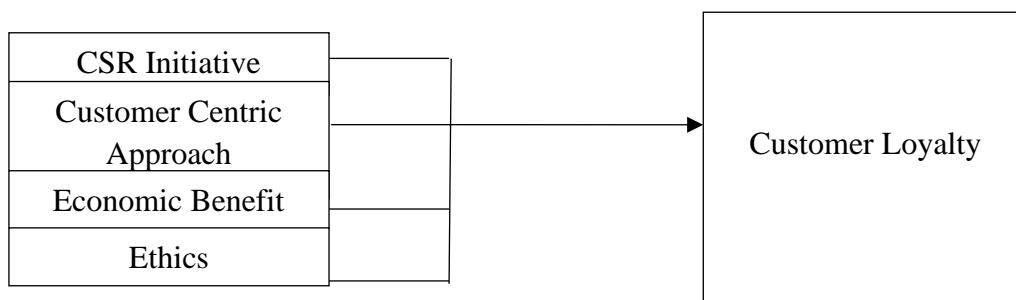
Source: [*Mirza et al. (2023); Yusof et al. (2015)*]

Figure 1. Conceptual frame

There is relation between customer loyalty and their variables (i.e., CSR Initiatives, Customer Centric Approach, Economic Benefit, and Ethics) Mirza et al. (2023); Yusof et al. (2015). So, this research assumes the following alternative hypotheses (H_A):

H1: CSR initiatives have significant impact on customer loyalty in the banking sector.

H2: Customer-centric approach has significant impact on customer loyalty in the banking sector.

H3: Economic benefits have significant impact on customer loyalty.

H4: Ethics has significant impact on customer loyalty in banking sector.

METHODOLOGY

The study sought to evaluate the impact of Corporate Social Responsibility (CSR) on enhancing customer loyalty within banking institutions. To achieve this objective, a descriptive and explanatory research design was adopted, grounded in a positivist methodological framework, which categorizes the study as quantitative. Three rationale pillars justified the quantitative approach: first, hypotheses in initial research phases should maintain simplicity

(Creswell 2009), a criterion met by the study's strongly validated hypotheses (H1–H4); second, the necessity of a representative sample; and third, the application of quantitative data analysis techniques. Data collection involved structured questionnaire surveys to gather numerical insights.

The research targeted individuals in Kathmandu Valley with diverse investment portfolios across demographic segments, resulting in a sample size of 103 participants aged 20–60 years. Primary data was prioritized, collected via a structured questionnaire comprising 24 closed-ended questions. These incorporated a 5-point Likert scale, a widely utilized tool where respondents rate their agreement with statements, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), to quantify behavioral tendencies.

A self-administered digital questionnaire, distributed through Google Forms, facilitated data collection from 103 respondents spanning varied ages, genders, occupations, and educational backgrounds. Frequency analysis was employed to outline basic demographics and investment preferences, while reliability analysis ensured questionnaire consistency. Descriptive statistics summarized key constructs, correlation analysis explored relationships between independent and dependent variables, and multiple regression analysis tested causal hypotheses. SPSS 25 software supported all analytical processes.

RESULTS AND DISCUSSION

Findings revealed that 56% of respondents identified as male and 44% as female. Educationally, 43% held bachelor's degrees and 29% master's degrees. Occupationally, 41% were students, 22% worked in private sectors, 18% in government roles, 16% were self-employed, and 3% fell into "other" categories. Age demographics showed 54% aged 20–30 years, 26% aged 30–40 years, and 20% aged 40–60 years.

Most of the people (20.4%) are associated with Global Ime Bank i.e., 21 people, followed by Rastriya Banijya Bank (18.4%), NIC Asia Bank (16.5%), Kumari Bank (13.6), Prime Commercial Bank (10.7), Standard Chartered Bank (6.8%), Nabil Bank (5.8%), Nepal Bank (4.9%), Everest Bank (2.9%).

A statistic called Cronbach's alpha is used to assess a set of scale or test items' internal consistency or dependability. One method to measure the degree of that consistency is Cronbach's alpha. The consistency with which a measurement captures a subject is known as its dependability (Mukaka, 2012).

Table 1

Descriptive Analysis

Code	Variables	Mean	Std. Deviation
CSR	CSR Initiatives	3.6962	.7682
CCA	Customer Centric Approach	3.7415	.8521

EB	Economic Benefit	3.5575	1.1235
EBH	Ethics	3.8251	.7535
CL	Customer Loyalty	3.6481	1.0162

[Source: Calculation Based on SPSS]

Table 1 expressed descriptive analysis where CSR initiatives is 3.6962, Customer Centric Approach is 3.7415, Economic Benefit is 3.5575, Ethics is 3.8251 and Customer Loyalty is 3.6481. The findings demonstrate that Customer Loyalty exhibits the highest mean score of 3.6481, while Economic Benefit reflects the lowest mean of 3.5575. Correspondingly, the standard deviations across variables are as follows: CSR Initiatives (0.7682), Customer-Centric Approach (0.8521), Economic Benefit (1.1235), Ethics (0.7535), and Customer Loyalty (1.0162). This underscores that Ethics displays the smallest standard deviation (0.7535), signifying minimal variability in responses, as its data points cluster most closely around the mean value.

Relationships between variables were found using correlation analysis. Pearson's correlation study was used for variables with simple multiple-choice answers. A correlation matrix was developed in order to assess the degree or strength of the relationship between the research variables. The link is directed when there is a positive correlation, meaning that as one rises, the other rises as well. A negative correlation, or a rise in one when the other falls, is the opposite of the previously described (Sharma & Chaudhary, 2018). R 0.30 indicates weak correlation, r 0.60 indicates moderate connection, and r 0.90 indicates strong correlation.

Table 2

Correlation Matrix

Construct	Correlation	Customer Loyalty
CSR Initiatives	Pearson Correlation	.534**
Customer Centric Approach	Pearson Correlation	.762**
Economic Benefit	Pearson Correlation	.460**
Ethics	Pearson Correlation	.607**
Customer Loyalty	Pearson Correlation	1

[Source: Calculation Based on SPSS]

Table 3 presents the Pearson's correlation coefficients quantifying relationships among the examined variables. The data reveals moderate positive associations between customer loyalty and CSR initiatives (0.534), customer-centric approach (0.762), economic benefit (0.460), and ethics (0.607).

Prior to conducting regression analysis, adherence to statistical assumptions was verified through four diagnostic tests: normality (assessing data distribution), linearity (evaluating linear relationships), multicollinearity (checking variable interdependence), and error independence (ensuring residual randomness). Regression analysis enables the isolation of individual independent variables' effects on the dependent variable's average outcome,

assuming other predictors remain constant (Sharma & Chaudhary, 2018). Table 3 displays the results of regression analysis.

Table 3

Coefficients

Independent variables	Coefficients value of beta	Sig.
(Constant)	-0.598	.000
Corporate Social Responsibility	0.280	.833
Customer Centric Approach	0.593	.040
Economic Benefits	0.079	.000
Ethics	0.198	.077

Result variable Customer Loyalty R = 0.790; R^2 = 0.624; Adj. R^2 = 0.608; S. E. = 0.58887; F-Value = 40.584; p-value of F test = 0.000. Sig. at 5% level

[Source: Calculation Based on SPSS]

Table 3 indicates a p-value of 0.000, which aligns with the significance threshold (alpha = 0.05), and an F-statistic of 40.584, confirming the model's statistical robustness. These results validate the model's effectiveness in explaining the relationship between the dependent variable (customer loyalty) and the predictor variables (CSR initiatives, customer-centric approach, economic benefit, and ethics). The R² value of 0.624 signifies that 62.4% of the variance in customer loyalty is accounted for by these four predictors.

From Table 3, the p-values for CSR initiatives (H1) and customer-centric approaches (H2) are statistically significant at the 5% level, supporting their acceptance. This implies CSR initiatives and customer-centric strategies positively influence customer loyalty. Conversely, the p-values for economic benefits (H3) and ethics (H4) exceed the 5% significance threshold, leading to their rejection. Thus, economic benefits and ethical considerations do not exhibit a statistically significant impact on personal investment decisions in this context.

CONCLUSION

This research is aimed to examine impact of CSR on enhancing customer loyalty in banking institutions. From literature CSR initiative, customer centric approach, economic benefit, and ethic are the factors of CSR that effect the Customer Loyalty. This study affirms the significance of CSR initiatives and a customer-centric approach in enhancing customer loyalty within banking institutions. However, it suggests a need for further investigation into the complex interplay between economic benefits, ethical behavior, and customer loyalty to better understand the dynamics shaping customer relationships in the banking sector. However, contemporary societal shifts and global interconnectedness have heightened individuals' awareness of financial literacy's critical role in asset management and wealth optimization. The study identifies no statistically meaningful linkage between Economic Benefits and Customer Loyalty. This outcome diverges from Rehan et al. (2020), who explored *"The impact of corporate social responsibility on customer loyalty in Islamic Banks"* and reported significant associations among economic, social, and

environmental CSR dimensions. Similarly, the analysis reveals no significant relationship between Ethics and Customer Loyalty, contrasting with Iqbal and Pramanik (2016)'s findings in *"Investigating the impact of CSR initiatives on customer's loyalty."* Their research posited that heightened CSR investments in customer-centric, ethical, philanthropic, and environmental initiatives foster favorable organizational perceptions among customers, which in turn strengthen trust and loyalty.

In contrast, the study's results for CSR Initiatives and Customer-Centric Approach align with prior work by Al-Ghamdi and Badawi (2019), who examined *"Do corporate social responsibility activities enhance customer satisfaction and customer loyalty,"* and Yusof et al. (2015), whose study *"Customers loyalty effects of CSR initiatives"* corroborated the positive influence of CSR strategies on loyalty outcomes.

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