



## IMPACTS OF CORPORATE SOCIAL RESPONSIBILITY (ECONOMIC, SOCIAL & ENVIRONMENTAL) ON CUSTOMERS LOYALTY IN ISLAMIC BANKS

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### ABSTRACT

This study aimed at exploring the corporate social responsibility (CSR) through different dimensions like economic, social and environmental in connection with customers' loyalty in the context of Islamic Banks. The CSR and customers' loyalty are considered as the dynamic gears towards the constructive image and success of the organizations. Thus, this research aims to contribute the existing literature by examining the impact of CSR on consumer loyalty in context of banking sector (Islamic Banks) in Khyber Pakhtunkhwa, Pakistan. To explore these real world issues, primary data was collected from the workforces hailing from Islamic Banks and their customers through dyad questionnaire. The first hand data (primary) was analyzed by using diverse statistical tools to reach the conclusion by pursuing research hypotheses, emerged from theoretical framework. Thus, results from study can help Islamic banks of Pakistan in better indulgence to CSR advantages in process of strategic planning and development.

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## 1. INTRODUCTION

The mission of Pakistan State Bank is to promote financial stability by developing dynamic and sound financial system to attain the sustainable economic development in Pakistan. In this mission, Islamic banking system has playing significant role by emerging the Islamic practices in banking industry thereby ensuring the Shariah transparency and compliance (Muhammad, 2002). The Islamic banks have occupied substantial position and has become fast growing sector in entire financial system due to efficient delivery of quality products and services to different stakeholders. The Islamic banks have become dynamic profit making institutions in modern competitive environment (Dusuki & Dar, 2007). Besides the revenue generation, Islamic banks have dynamic responsibilities which make them accountable to their stakeholders among which corporate social responsibility (CSR) has been considered as the inclusive set of these responsibilities (Hassan & Harahap, 2010).

The success of social responsibility ingenuity not only enhance customers' recognition towards

the Islamic banks but it builds also strong and long-lasting relationship between the customers and banks. The CSR validates effective role of Islamic banks in the social activities so as to activate substantially skepticism and cynicism among the stakeholders (Abdeljawad et al., 2013). The literature reveals that CSR has optimistic impact of service quality which helps in developing customers' trust, commitment, and satisfaction (Alamer et al., 2015a). The CSR is dynamic for developing customer trust, which in turn increases customers' loyalty (Muzammal et al., 2017). Thus, trust has been widely recognized and endorsed as the facilitator in different contexts by playing mediating role in relations between CSR and customers' loyalty (Raza et al., 2018).

## **2. LITERATURE REVIEW**

The review of literature helps the researchers in examining the existing research studies about the research concepts aimed to explore in the definite context. The research concepts used in this study are CSR as triple-bottom line (economic, social and environmental) model presented by Elkington (1998) thereby applying this model in the context of Islamic banks by predicting the customers loyalty. Likewise, customers' loyalty is considered as the significant consequential concept which is dependent on many factors in the organizational contexts. In this study, Dick and Basu (1994) model for customers' loyalty have been applied in context of Islamic banking sector. Therefore, the sequential existing studies have been explored in literature review in understanding research concepts (CSR and customers' loyalty) more carefully. This study is focused on definite responsibilities on Islamic banks and its impact upon customer loyalty in Islamic banking sector in Khyber Pakhtunkhwa, Pakistan.

### **2.1 CORPORATE SOCIAL RESPONSIBILITY (CSR)**

The CSR realizes economic, social and environmental activities of Islamic banks to contribute in developing local economy and improving individuals' life quality in society/community (Haniffa & Hudaib, 2007). The economic responsibility denotes to indirect and direct economic impact of organizational operations on stakeholders and society by keeping in view profit maximization, providing job prospects and developing the local business linkages (Castaldo, 2009). The social and environmental tasks denotes to the organizational efforts towards growth of social and environmental activities for the betterment of the individuals (Pérez & Bosque, 2013). These responsibilities collectively frame the complete package for the banks to contribute in the societies thereby playing their critical role towards the development of community (Alamer et al., 2015b). These responsibilities, when realized by organizations in true spirit leads to higher trust and undaunted loyalty of the customers (Afridi et al., 2018).

#### **2.1.1 ECONOMIC RESPONSIBILITY**

The economic responsibility attribute of the CSR stands towards the set values and principles with respect to moral and ethical rules and regulations (Dusuki & Dar, 2007). The Islamic banks attempt to realize the clarification which might expedite the business activities and make revenues by helping and contributing in the community development (Hassan & Latiff, 2009). In this context, economic judgments are made by seeing their inclusive dynamic influences on the businesses and society respectively (Mosaid & Boutti, 2012). Thus, the economic responsibility helpful in improving organizational operations towards engaging in activities and practices which pays the way to

sustainable development (Alamer et al., 2015b). The economic measurement of CSR helps the banks in terms of economic contributions in terms of benefits and welfares to community. This helps in determining social responsibility of concerned banks towards community thereby contributing in community development (Zafar & Sulaiman, 2018).

### **2.1.2 SOCIAL RESPONSIBILITY**

In social responsibility, the Islamic banks are required to responsible socially to society with regard to their corporate activities and operations. The CSR recognized the new facet of responsibility on the part of banks towards expectations of stakeholders to become the source of acceptability and social values (Hummels & Timme, 2004). The social responsibility denotes towards distinctive, far-reaching and interconnected change where organizations are more focused on social responsibility regarding ethical behavior and self-actualization to validate their business operations (Kolk & Tulder, 2010). The social responsibility restricted the banks to focus more on social values of society along with prioritizing stakeholders' interests to serve the society instead of the motive towards profit-maximization (Mallin et al., 2014). The customers, in turn, will show their utmost dedication and trust towards concerned banks when the customers feel that the concerned banks are trying to fulfilled their social needs. This will help in developing the loyalty of customers towards bank concerned (Raza et al., 2018).

### **2.1.3 ENVIRONMENTAL RESPONSIBILITY**

The environmental responsibility perspective of CSR rooted the efforts of organizations towards the environmental issues by benefiting the societies to protect them from environmental impediments (Cetindamar & Husoy, 2007). The banks can contribute voluntarily in the making friendly environment where the individuals be able to interact each other without any hindrance of environmental constraints (Hassan & Harahap, 2010). In this connection, the challenging environment in contemporary competitive situation becomes most significant hurdle in sustainable growth of societies (Haslinda & Faizah, 2014). The environmental protection assurance is vital concern for banks in achieving the competitive edge in viable environment due to technological advancement and change (Helfaya et al., 2016). Through effective and efficient measures of banks towards environmental protection, customers' might be able to show their confidence which leads to higher customers' loyalty (Afridi et al., 2018).

## **2.2 CUSTOMERS LOYALTY**

The loyalty has been defines as customers psychological affiliation, readiness to praise the services provider and engagement in affirmative interaction with specific product and service in prolonged manner (Iwasaki & Havitz, 2004). The loyalty is degree of undaunted assurance related with the customers' repeated practicing behavior towards particular products/services (Jones & Taylor, 2007). In attitudinally loyal customers are reflected as vital source and asset for businesses since they enhance strength the positive attitude towards the benchmark as well as word of mouth elevations that can be helpful in fascinating other customers. The CSR in banking sector has significant impact in shaping the loyalty of the customers (Pérez et al., 2013). The behavioral loyalty is based on certain features which are vital for the banks to consider while managing the customer needs (Yoshida et al., 2015). The behavioral loyalty is important critically for business organizations

since it provides the means for customers to change attitude in consistent behavior concerning specific products and services (Muzammal et al., 2017).

### 3. RESEARCH DESIGN

The research design is the complete package of the methods and procedures for conducting the research study. It comprises research philosophy and approach, population and sampling, the data collection and analysis procedures, questionnaire design and measurement along with reliability and validity of the instrument.

#### 3.1 PHILOSOPHY AND APPROACH

The positivism is research philosophy adapted in present research as positivism suggests that reality should be existed and further measured and explored by using the quantitative techniques. Therefore, the realities (corporate social responsibilities and customers loyalty) are already exists and the researcher is trying to further explore these realities in Islamic banking context. Likewise, survey method has been used to access population. The main theme behind survey is questioning the respondents about the research variables by describing their views/opinions.

#### 3.2 METHODS AND PROCEDURES

When measuring the huge population likewise workforces in particular context, the researcher do not need to collect information from every member of population, rather the said job is generally done through sample and then researcher generalize the finding obtain from sample towards the population. The sample-size is calculated through statistical formula for the infinite sampling by selecting a sample of 355 with 95% confidence level. Total 355 questionnaires were distributed among which 318 were recollected with the response rate of 90%. Researcher used questionnaire adapted from previous studies like CSR (Kolk & Tulder, 2010) and for customer loyalty (González & Vilela, 2016). The researcher has used the inferential methods to analyze the hypotheses statistically and to reach the conclusion.

#### 3.3 RELIABILITY AND VALIDITY

The researcher has ensured the validity of instruments through pilot study by using 33 questionnaires in the field study by getting some field data which was then used in the formula for sample size determination in case of infinite population while the reliability of instrument was done through the Cronbach Alpha reliability statistics. The reliability statistics shows that the Cronbach values are within the required and acceptable range (0.7) for all the research variables (social, economic, environmental responsibilities and customers' loyalty).

**Table 1** Reliability Statistics

S. No.	Research Variables	No. of Items	Cronbach's Alpha
1	Social Responsibility	08	0.813
2	Economic Responsibility	08	0.863
3	Environmental Responsibility	08	0.758
3	Customers Loyalty	10	0.893
4	Instrument (Questionnaire)	28	0.899

### 4. RESULTS

Table 2, the positive and significant association is confirmed through correlation between CSR dimensions (economic, social and environmental) and customers' loyalty. The results shows that

customers' loyalty has been linked positively and significantly with economic responsibility (.711 & .000), social responsibility (.657 & <0.001) and environmental responsibility (.546 & <0.001). However, weak correlation has been found in between environmental responsibility and the customers' loyalty. Therefore, from the significant information about the association, the research can more towards the regression.

**Table 2: Correlation Analysis.**

		Economic Responsibility	Social Responsibility	Environmental Responsibility
Economic Responsibility	Pearson Correlation	1	.426**	.481**
	Sig. (2-tailed)		<0.001	<0.001
	N	318	318	318
Social Responsibility	Pearson Correlation	.426**	1	.386**
	Sig. (2-tailed)	<0.001		<0.001
	N	318	318	318
Environmental Responsibility	Pearson Correlation	.481**	.386**	1
	Sig. (2-tailed)	<0.001	<0.001	
	N	318	318	318
Customer Loyalty	Pearson Correlation	.711**	.657**	.546**
	Sig. (2-tailed)	<0.001	<0.001	<0.001
	N	318	318	318

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table 3 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.662 <sup>a</sup>	.439	.433	.44984

**Table 4 ANOVA Statistics**

Model	Sum Squares	df	Mean Square	F	Sig.
1 Regression	49.690	3	16.563	81.853	<0.001 <sup>b</sup>
Residual	63.539	314	.202		
Total	113.229	317			

**Table 5: Coefficient of Regression.**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.214	.165		7.376	<0.001
	Economic Responsibility	.302	.048	.373	6.289	<0.001
	Social Responsibility	.260	.052	.263	3.970	.028
	Environmental Responsibility	.132	.054	.136	1.982	.044

a. Predictors: Economic Responsibility, Social Responsibility, Environmental Responsibility

b. Criterion Variable: Customer Loyalty

To examine the cause-&-effect relationship, the regression procedure has been applied. The results from regression procedure revealed that there is 44% variation in dependent variable is due to independent variables. The ANOVA statistics shows the model best fitness and its significance in the regression process while the coefficient of regression shows the individual variable impact on the dependent variables. The results shows that economic responsibility has significant impact on the customers' loyalty (.302 & .000). The social responsibility has also significant impact on the customers' loyalty (.260 & .028) while environment responsibility has certain significant but weak impact on the customers loyalty which is further supported by the results from correlation. Thus, the results of regression confirmed the significant impact of the predictors (economic, social and



environmental) responsibilities on the criterion variable (customers loyalty).

## 5. DISCUSSION

The present research study investigated the impact of CSR through triple bottom line approach (economic, social & environmental) on the customers' loyalty in the context on Islamic banks. The primary data was collected from the workforces and the customers hailing from the Islamic banks in Khyber Pakhtunkhwa, Pakistan. The Islamic banks have been considered as vital gears to national economy by confirming Shariah regulations and compliance. In this connection, numerous studies have examined the CSR in Islamic banking sector with diverse findings (Dusuki & Dar, 2007; Rahman et al., 2010; Aribi & Gao, 2012; Farag, et al., 2014; Ahmed et al., 2016; Zafar & Sulaiman, 2018). These studies have examined the importance and the critical role of corporate social responsibilities in context of Islamic banks in developing countries. In previous trajectory, the present study has also offered certain valuable results in the context of Islamic banks in Khyber Pakhtunkhwa, Pakistan. This study has also provided certain valued recommendations emerged from the findings of this study and the directions for future research.

## 6. CONCLUSION

The results from the correlation and regression concerning the association and impact between the CSR (economic, social & environment) and customers' loyalty provide results respecting positive and significant association among the research variables. The results further shows that these responsibilities have also positive and significant impact on the customers' loyalty in context of Islamic banks. The results shows that in Islamic banks, economic, social and environment responsibilities of the banks have significant contribution towards the society and thus helps in shaping the attitude and behavior of their stakeholders in an optimistic manner. It can be explained that CSR efforts on the part of Islamic banks are ensuring their standards towards the products and services they offer to their customers along with their contribution towards the development of community.

Therefore, the Islamic banks are really interested in corporate social responsibilities and pay more attention to this issue in the contemporary competitive environment. This study has offered some recommendations emerged from the results. The effective implementation of CSR measures might be helpful in bringing along certain long-term benefits for the development of the Islamic banks in the competitive environment. The results of this study have implications for the Islamic banks towards CSR activities that might be helpful in shaping the behavior of the customers in an optimistic manner thereby improving the credibility of the Islamic banks.

Some recommendations are given as 1) Islamic banks are required to improve their economic responsibility measures thereby providing training, employment opportunities and donations to deserving people at diverse levels to further improve the loyalty of their stakeholders; 2) on the part of Islamic banks, more efforts are needed to contribute in the social activities like the provision of healthcare facilities and support for the poor students in meeting their educational expenditure; 3) with respect to environmental responsibility, the Islamic banks are required to contribute in environmental protection by supporting projects and programs related to environmental contamination. The Islamic bank should provide training programs to their workforces to update the

knowledge and skills thereby serving the customers in a better way which in turn helps in developing the customers loyalty.

## 7. AVAILABILITY OF DATA AND MATERIAL

The data used is included in this article. No data is generated from this study.

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