



HOW CORPORATE SOCIAL RESPONSIBILITY SHAPES RELATIONSHIP QUALITY AND BUSINESS SUCCESS

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Abstract: Facing drastic changes in business environment, banks are incorporating Corporate Social Responsibility (CSR) as parts of customer relationship management strategies in quest for customer loyalty. Despite the importance of CSR, research on the influences of CSR on relationship quality and customer loyalty is scarce. This study aims to examine the relationships between CSR, relationship quality and customer loyalty in banking context in Hong Kong. Through convenient sampling method, a total of 212 online surveys were collected. The findings discovered CSR (Philanthropic responsibility, Ethical responsibility, Legal responsibility, and Economic responsibility) affected relationship quality and customer loyalty. Among the dimensions, Philanthropic responsibility exhibited significant influence on relationship quality while relationship quality showed a significant impact on customer loyalty. The study provides theoretical implications for service research and service encounter management. It will practically add-value to managers and practitioners in designing and developing CSR strategies to promote long-term loyalty between banks and their clients.

Key Words: Corporate social responsibility; Relationship quality; Customer loyalty; Banking

1. Introduction

CSR has received great amount of devotion in contemporary business in recent decades. It is increasingly integrated as an important business strategy and has been incorporated into business policies and practices around the globe [1]. Thus, CSR concepts have been incorporated into the Banking policies and activities in Hong Kong. For example, the recent “Smart and Sustainable Banking” promoted by the Hong Kong government encourages environmentally and socially conscious banking practices [2]. In addition, Sustainability will be taken into account when considering the funding to various parties [3]. Moreover, in 2018, HSBC alone contributed US\$105 million to charities and non-profit organizations running community projects around the world [3]. Consequently, CSR and sustainability are popular practices in Banking Industry in Hong Kong [4]. Additionally, more and more consumers use their knowledge of CSR in their decision-making process [5]. Research reveals that sustainable investments from investors are increasing at a rapid rate while consumers are more willing to accept a financial tradeoff between doing good and generating returns [6]. As such, banks in Hong Kong need to find new ways of retaining customers and making themselves unique from competitors as the financial marketplace including banking in Hong Kong has become more dynamic and competitive in recent decades because of the proliferation of financial technology, customer sophistication and commoditization of banking customer relationships (increased customer switching or disloyalty). Research

also shows competitive advantages can be created if banks adopt CSR strategies [5,7]. Thus, CSR initiatives have been adopted as differentiation strategies to influence consumers' decisions and behaviors [8] in banking industry in Hong Kong. Despite the emerging importance of CSR on consumer relation and behaviors [9], very few literatures have focused on providing a comprehensive view on the relationship of CSR, RQ and customer loyalty in the context of banking industry. This study therefore aims to investigate the impact of CSR on RQ and loyalty in banking context of Hong Kong.

2. Literature Review and Hypothesis Development

2.1. Corporate social responsibility

CSR initiatives have been adopted as differentiation strategies to influence consumers' decisions and behaviors [8]. Consumers are more willing to pay more for products offered by socially responsible companies because they perceive these additional benefits [10]. Socially responsible practices can promote long-term company-customer relationship [2,11]. In fact, company should invest more resources in CSR activities to build positive image of business and accelerate the satisfaction, trust, loyalty of customers, thus improving the financial performance of organization [12, 13]. Carroll [14] defines CSR as "the social reasonability of business encompasses the economics, legal, ethical, and discretionary [later referred to as philanthropic] expectations that society has of organizations at a given point in time". According to Carroll [14], CSR can be categorized into four dimensions including discretionary (philanthropic) responsibility, legal responsibility, ethical responsibility, economic responsibility.

2.2. Relationship quality

In recent years, the banking marketplace becomes more dynamic and competitive. Thus, banks adopt relationship marketing for customer retention and loyalty to maintain profitability. As an expanded issue of relationship marketing, RQ is considered as an appropriate indicator of relationship success [15]. Specifically, RQ represents the outcome of the interaction between the firm and its customers. Maintaining strong relationship with customers provides competitive advantages. Thus, RQ is regarded as a significant concept in most marketing literature. RQ can be seen as an overall assessment of the relationship strength and the extent to which it meets the needs and expectations of the parties based on history of successful encounters or events [16]. It captures the essence of relationship marketing and plays a critical role in the study of long-term relationships maintenance. According to Crosby et al. [17], RQ is a secondorder factor consists of two dimensions (satisfaction and trust). Customer satisfaction refers to a "consumer's fulfilment response" towards specific products, services, and experiences, and is a post consumption evaluation that a service provided a pleasing level of consumption associated fulfilment [18]. Trust is defined as competence and integrity and benevolence [19].

2.3. Corporate social responsibility and relationship quality

2.3.1. Philanthropic responsibility and relationship quality

Philanthropic responsibility implies the need for business to react to the demands of society that corporations have to be good corporate citizen. Studies provide mixed results about the relationship between philanthropic responsibility and RQ. For examples, Ahn et al. [20] find philanthropic responsibility significantly affects company images which, in turn, affects consumer satisfaction. However, the study of Lee [21] indicates that discretionary responsibility does not significantly affect customer satisfaction in the life insurance industry. Thus, this study hypothesizes that:

H1. Philanthropic responsibility is positively related to relationship quality.

2.3.2. Ethical responsibility and relationship quality

Ethical responsibility addresses the social value, norms and moral standards which go beyond the laws and are expected by customers, employees, stakeholders and communities. Studies provide mixed results about the relationship between ethical responsibility and RQ. Rim et al. [22] discover that respondents from South Korea emphasize that ethical responsibility can enhance their trust to the firms and government. However, Hsu et al.

[23] find ethical responsibility has no significant influence on customer satisfaction in Taiwan. Thus, the study hypothesises that:

H2. Ethical responsibility is positively related to relationship quality.

2.3.3. Legal responsibility and relationship quality

Legal responsibility refers to the social requirement of the firm to comply with laws and regulations set by governments and regulators. Previous studies suggest a positive relationship between legal responsibility and RQ. For examples, Hsu et al. [23] discovers that customer satisfaction increases if the firms are more legally responsible. Rim et al. [22] indicate that legal responsibility is positively related to public trust in USA.

Yoo [24] suggests legal responsibility enhances consumer trust. However, in tourism literature, Cho et al. [25] reveal insignificant relationship between legal responsibility and trust. Thus, the study hypothesises that: H3. Legal responsibility is positively related to relationship quality

2.3.4. Economic responsibility and relationship quality

Economic responsibility is a fundamental job of business, indicating that the primary roles of corporation are to generate profit, provide return to owners and shareholders and provide jobs to individuals in the society. Prior research shows economic responsibility is positively related to RQ. For examples, in study of UAE consumers, economic responsibility is discovered to be highly related to trust [22]. Lee [21] discovers that economic responsibility can influence customer satisfaction and plays mediating role between satisfaction and loyalty. However, Park et al. [26] and Cho et al. [25] suggest insignificant relationship between economic responsibility, trust and satisfaction. Thus, the study hypothesises that:

H4. Economic responsibility is positively related to relationship quality

2.3.5. Customer Loyalty as an outcome of relationship quality

According to Oliver [18], loyalty is “a deeply held commitment to re-buy or re-patronize a preferred good or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational and marketing efforts having the potential to cause switching behaviors”. There are three types of loyalty: behavioral loyalty, attitudinal loyalty and composite loyalty. Behavioral loyalty refers to repeat patronage. Attitudinal loyalty is based on intangible dimensions such as positive feelings and emotions [27]. Composite loyalty refers to combination of both attitudinal and behavioral loyalty.

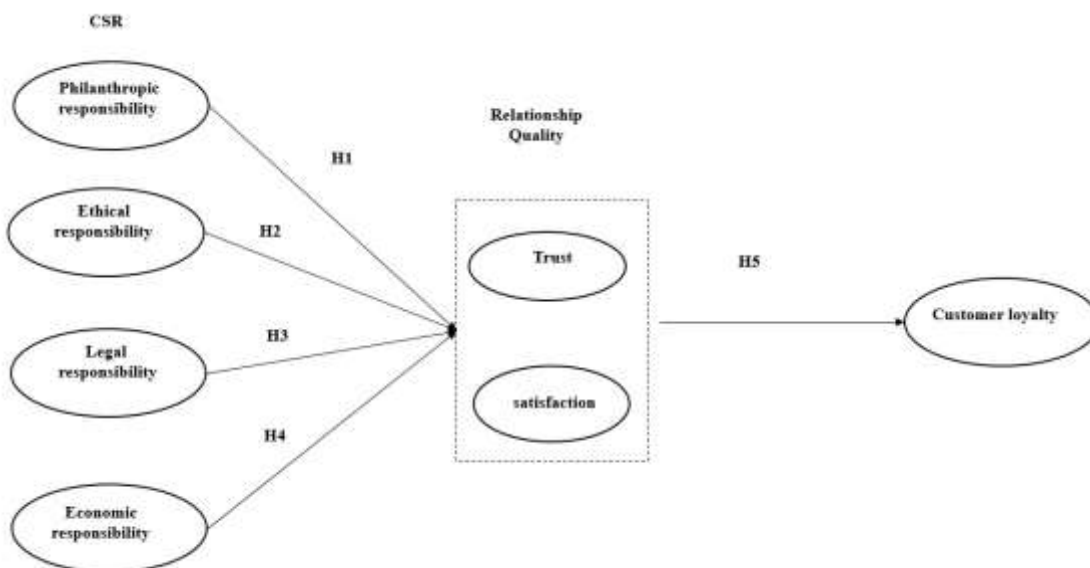


Figure 1: Hypothesized model.

The association between RQ and loyalty is confirmed by various studies. For example, Wu, et al. [28] research on Islamic banks and find experiential trust and experiential satisfaction have influence on experiential loyalty. Rajaobelina et al. [29] report RQ is significantly related to outcomes of both purchase intention and word-of-mouth. Wong et al. [30] confirm the RQ is a significant mediator between information sharing and customers' anticipation of future interaction as well as their willingness to provide referrals. Thus, the study hypothesises that: H5. Relationship quality is positively related to customer loyalty

Based on the literature review, we propose a hypothesized model with five hypotheses. As seen in Figure 1, the proposed model examined the effect of the four dimensions of CSR on relationship quality and customer loyalty.

3. Research Method

3.1. Sample

A total of 212 valid responses were collected via an online survey in Hong Kong. To collect data, mobile survey was implemented using a convenient sampling approach. Participants of the mobile survey received an invitation message via WhatsApp or mobile text messages. Our targets were those aged 18 years old or above who have experience in banking services in the past 1 year. Among all the valid responses, 53.5% are females while 46.5% are males. There were 72.7% respondents aged between 18 and 24 years old and 12.1% were between 45-54 years old. Regarding education level, most respondents had an undergraduate degree (44.4%) while 44.4% held a diploma/high diploma/associate degree/certificate. Respondents had different occupation but majority of them are students (75.8%). Over 78.8% of respondents had monthly income below HK\$20,000.

3.2. Measurement

Online survey is conducted for this study as it provides access to banking customers at the low cost [31]. In order to administrate an effective survey, structure questionnaire is designed by adopting these measurement scales: CRS (Philanthropic, Ethical, Legal and Economic) from Arli et al. [32], RQ (Satisfaction and Trust) from Mostafa and Giovanis [19-33] and Loyalty (Attitudinal and Behavioural) from Giovanis et al. [33]. The original scales adopted a 7-point scale but this research will adopt a 5-point scales so as to reduce confusion [34]. As Hong Kong is a Chinese society, back-translation (English-Chinese-English) will be applied.

4. Finding

4.1. Reliability and validity

As seen in Table 1, the Cronbach alpha, Average Variance Extracted (AVE) and Composite Reliability (CR) of the constructs exceeded the threshold necessary for construct reliability and validity [35-37].

Table 1: Reliability and validity.

	Cronbach's alpha	Composite reliability	Average Variance Extracted (AVE)
Philanthropic	0.811	0.887	0.725
Ethical	0.735	0.846	0.651
Legal	0.745	0.855	0.663
Economic	0.837	0.901	0.752
RQ	0.921	0.933	0.538
Loyalty	0.867	0.896	0.521

Discriminant validity was assessed following the Fornell, et al. [14] criterion. As seen in Table 2, the square roots of the AVEs of each construct were larger than their respective intercorrelations, confirming the evidence of good discriminant validity.

Table 2: Discriminant validity.

	Philanthropic	Ethical	Legal	Economic	RQ	Loyalty
Philanthropic	.85*					
Ethical	.56*	.81*				

Legal	.21*	.42*	.81*		
Economic	.11*	.16*	.65*	.87*	
RQ	.49*	.52*	.52*	.45*	.73*
Loyalty	.37*	.32*	.34*	.38*	.79*

p<.001

4.2. Structural model

The hypothesized paths in the conceptual framework were estimated using a bootstrapping approach with 5000 resamples in PLS-SEM 3.3.3. The structural model with standardized root mean residual (SRMR) of 0.144, presented a good fit between the conceptual model and the observed data (shown in Table 3).

Table 3: Fit indices.

	Model fit	
	Saturated model	Estimated model
SRMR	0.144	0.145
d_ULS	10.952	11.084
d_G	3.557	3.567
Chi-Square	3535.138	3546.784
NFI	0.46	0.458

The path coefficient and the p values are presented in Table 4. To recap, H1 through H4 addressed the relationships between the four dimensions of CSR on RQ. H1, which predicted a positive relationship between philanthropic responsibility and relationship quality ($\beta = 0.291$, $p < 0.001$) was supported. H2, which proposed a positive link between ethical responsibility and relationship quality, was supported ($\beta = 0.23$, $p < 0.01$).

There was a positive link between legal responsibility and relationship quality ($\beta = 0.201$, $p < 0.01$), providing support for **H3**. In addition, H4, which suggested a positive connection between economics responsibility and relationship quality ($\beta = 0.247$, $p < 0.0001$) was significant. H5 which proposed a positive association between relationship quality and loyalty ($\beta = 0.797$, $p < 0.001$) was supported.

Table 4: Hypotheses testing results.

Relationship	Path coefficients β	T Statistics t	P value	Hypothesis testing
H1 Philanthropic Responsibility → RQ	0.291	4.623	0	Support***
H2 Ethical Responsibility → RQ	0.23	3.166	0	Support**
H3 Legal Responsibility → RQ	0.201	2.687	0	Support**
H4 Economics Responsibility → RQ	0.247	3.529	0	Support***
H5 RQ → Loyalty	0.797	27.433	0	Support***

5. Discussion and Implications

In accordance with the earlier studies [20-22], the results confirmed the central hypotheses that CSR might affect relationship quality and customer loyalty. These results strengthened the importance of CSR in customer-firm interactions in the retail banking context. This study confirmed that all the CSR dimensions have significant influence on relationship quality and loyalty. Among the four dimensions of CSR, philanthropic responsibility was a powerful predictor of relationship quality while legal responsibly display relatively lower effect on relationship quality. Relationship quality offered strong explanatory power on customer loyalty to retail banks.

5.1. Theoretical implications

This study adds the originality to the theory by assessing the links between CSR dimensions and various relational outcomes (RQ and loyalty) in banking context of Hong Kong. While the extant literature has revealed such outcome constructs in a fragmented and inconsistent manner, this study proofs that all the CSR

dimensions affect RQ and loyalty. Thus, the results of this study can definitely draw the attention to those who are interested in learning more about the CSR and relationship marketing in financial context. This study can provide a better understanding and interpretation of how CSR is linked to RQ and customer loyalty. Literatures review part will provide a comprehensive review of the related theories and this study will definitely add value to students or researchers who may want to investigate and research about RQ and customer loyalty in the future.

5.2. Practical implications

In facing the rapid changes of banking environment, it is essential for decision markers/marketing managers to understand more about the factors affecting customer loyalty in consumer decision making process of relational exchange. Based on the findings of this study, managers should design and develop differentiate strategies via investing more in various CSR initiatives, thus promoting long-term loyalty between banks and their clients. Since this study confirms that four CSR dimensions affect customer loyalty, therefore, finance managers can better utilize the results for budget allocation. By doing so, the financial resources can generate maximize return to the firm.

The research provides a deeper understanding on how different dimensions of CSR affects RQ and loyalty. Marketing managers should design appropriate CSR communications which enhances customer identification with the company as well as their subsequent pro-company behaviors [38]. Training manager should design CSR-related training for frontline employees so as to increase their awareness on ethical professional practices [38-39].

6. Limitation and Conclusion

CSR plays an important role in polishing RQ which, in turn, enhances customer loyalty. However, literature related to CSR-RQ-loyalty relationships in banking context is scare and fragmented. Thus, this study fills the gap to examine the connections between CSR and relational outcomes. The conceptual model adds value to the CSR and marketing literature by providing a coherent theoretical framework explaining CSR-RQ relationships in banking contexts. The findings can help banking mangers plan and design various differentiation strategies in quest for long term customer relationship. This study has some limitations. Firstly, this research was conducted in the banking industry in Hong Kong. To further generalize the findings, future research can be conducted in different industries or countries (i.e., developed to developing) with different cultures and sub-cultures (i.e., age, gender, social class). Secondly, this study is cross-sectional quantitative research, future studies may focus on longitudinal or qualitative method for triangulation purposes.

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