

How Corporate Social Responsibility Enhance Banking Sector Customer Loyalty in Digital Environment? An Empirical Study

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Abstract

This study examines the relationship between corporate social responsibility (CSR) perceptions and customer loyalty in the banking sector while considering the mediating effects of customer satisfaction, corporate image, corporate reputation, service quality between CSR activities, and customer loyalty. A self-administered survey was conducted on banking customers in Pakistan. Based on 221 customers' data, the analysis was performed using the structural equation modeling (SEM) approach. The study results show that CSR positively influences customer loyalty in the banking sector, while customer satisfaction, corporate image, and service quality affect the customer-business relationship. Notably, a new finding from the study highlights the importance of the mediating role of corporate image and service quality in enhancing the effect of CSR on customer satisfaction. The research findings provide valuable insights to banks in developing countries on devising a CSR strategy to strengthen customer loyalty.

Keywords:

corporate social responsibility, customer loyalty, service quality, business strategy, sustainability

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INTRODUCTION

Corporate social responsibility (CSR) refers to “the firm’s activities and status connecting to its societal and stakeholder obligations, and [how] it embodies the economic, legal, ethical, and discretionary dimensions.” The evolution of CSR has opened new avenues of investigation in the marketing literature. The long-established consensus among marketing scholars is that attractive corporate associations positively influence customer behavior by achieving customer loyalty through recommendation and repurchase intentions. Therefore, CSR has two significant benefits: first, it acts as a strategic asset, and second, it is an essential component of firms achieving a sustainable competitive advantage (Ivory & Brooks, 2018).

The continuous struggle to achieve competitive advantage has intensified competition over time. Establishing a loyal customer base is therefore a crucial challenge. Thus, customer loyalty is identified as the most decisive asset of a business. It helps in attaining competitive advantage and is also used to assess the success of customer preservation strategies (Lewis & Mitchell, 1990). Customer loyalty is the most necessary construct driving business success. The prime objective of a business is to turn the potential customer into a loyal customer by offering a distinctive edge. As a result, studies have revealed CSR as a vital marketing strategy that enhances customer loyalty (Li et al., 2019). Therefore, in today’s highly competitive business setting, marketers invest a major portion of their marketing budget in activities that bolster their CSR, and this approach continues to gain momentum (Abdullah et al., 2018; Hafez, 2018; Park & Kim, 2019). CSR has emerged as a widespread reality, with Fortune 500 corporations investing more than US\$15 billion as part of their CSR or philanthropic activities (Inoue et al., 2017). From a business viewpoint, investment in CSR activities establishes a firm competitive advantage by enhancing customer relationships with business (Carroll & Shabana, 2010). As such, CSR provides a competitive advantage for most corporations in the business world (Cuesta-Valiño et al., 2019).

Furthermore, in this regard, marketing researchers have examined different aspects of CSR and their influence on customer behavior. Perez and del Bosque discussed CSR's role in service quality (SQ) (Pérez & del Bosque, 2017) and also studied the effect of CSR and SQ on customer loyalty intentions. Attracting customers and maintaining high-quality service is the ultimate goal of the firm. CSR fosters the customers' and firms' relationship through providing high-end services. This premium CSR experience induces greater trust in individuals, enabling the customer to establish a long-term relationship with the firm (Lo, 2020). In particular, CSR plays an influential role in fostering individuals' experience, thus enhancing customer loyalty behavior. Given the articulation, the study shows that CSR influences customer loyalty in Pakistan's banking industry (Khawaja et al., 2021; Raza et al., 2020). Similarly, the research revealed that the progressing notion of CSR enhances the firms' SQ, potentially encouraging individuals to be loyal customers (Park & Kim, 2019).

Huang et al. (2017) discussed how CSR and PSQ influence customer loyalty. Further, Pérez & del Bosque (2013) combined commercial knowledge and business

image while studying the CSR-loyalty association. Khan et al. (2015) examined the association between CSR and customer loyalty over PSQ. Rai & Bansal (2015) stated that investment in CSR could lead to a better brand image. CSR spending might help businesses distinguish themselves in some situations, while CSR enterprise can support the association through business shareholders (Abdullah et al., 2021; Goyal & Chanda, 2017; Shah et al., 2020). Overall, organizations are now more concerned than ever before about how their CSR efforts can affect customer behavior and recover customer loyalty.

Loyalty behavior is the most significant way a customer expresses their consummation of corporate efforts and is strongly related to its effectiveness. Enhancement in customer loyalty leads to the effectiveness of a corporation (Goyal & Chanda, 2017). To accrue more loyal customers, it is essential to evaluate how they perceive the organization's efforts. As such, customer loyalty is well-defined as “a deeply held commitment to re-buy a preferred product or service consistently in the future,” which thereby causes “repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Goyal & Chanda, 2017).

During the pandemic, banks observed customers shift their demand toward digital or electronic banking systems. The basis of banking services relies on the trust factor between the banks and customers, with the definitive goal to deliver quality services for minor transaction costs (Shankar & Jebarajakirthy, 2019). Digital means are becoming more prevalent in the banking sector because more account holders are learning about online banking. Outdated banking modes became redundant throughout COVID-19, and therefore, a rise in digital platforms has been observed. Consequently, the banking sector has realized that there is a need to understand this behavioral change. More people in Pakistan, for example, learned to deal with their banking needs online as they were not permitted to visit their bank branches (Haq & Awan, 2020). In this crisis, suitable online banking services tend to generate customer loyalty.

The banking sector is an essential component of any country's economy. This centrality of the banking sector is inevitable because banks act as the custodians of customers' wealth and offer basic financial services to a large segment of people, providing credit and liquidity to the market. Pakistan's banking sector, governed by the State Bank of Pakistan (SBP), has matured considerably in recent times. However, the banking sector is faced with several challenges. Firstly, banking firms are challenged by the increased homogeneity of banking services. The uniformity in banking services has concentrated to a minimal level. Secondly, with the advancement in technology, the number of banking services providers is increasing, thus causing more intense competition in the banking sector. Lastly, in Pakistan, the banking sector is among the significant players contributing to social issues. Banks are strongly involved in CSR activities, directing their CSR investments through diverse channels such as annual or sustainability reports, social media marketing campaigns, and providing sponsorships for social causes (Khan et al., 2015).

Banks spend millions on activities, including social initiatives, in anticipation of influencing CI, customers' commitment, and loyalty. Marketing scholars have investigated the antecedents that influence customers' commitment and the mechanism through which these antecedents may lead to customer loyalty (Bendapudi & Berry, 1997; Vivek et al., 2012). One of the most important antecedents is CSR perceptions, which affect the customers' affective commitment by creating an emotional attachment in line with Social Identity Theory (SIT) (Khan et al., 2015).

Banks considerably influence the world's economy by significantly affecting the customers' emotional behavior. The literature illustrates that the banking industry substantially impacts customer loyalty through CSR programs. Banks, to survive in the long run, must compete well with their competitors, substantially gaining a distinctive edge through incorporating CSR practices. As such, studies show that a customer-centric strategy (i.e., CSR) enhances customer loyalty (Arrive et al., 2019), thus allowing the firm to acquire a distinctive edge over others. In the banking industry, customer loyalty is vital for achieving business success. Therefore, to succeed in the global market, retain customer loyalty, and develop a quality relationship requires formulation of a solid firm-customer association. Indeed, one study on the relationship between customer loyalty and CSR in the retail banking industry states that customer loyalty is a critical component (Vo et al., 2020) that leads to immediate business success.

Moreover, with an increase in the relationship length with a specific bank, customers tend to develop personal relationships and affiliations and become familiar with its modes of operations. These relationships may act as constraints for the customers in terminating their relationship with that bank, and the customers may enter into a long-term binding relationship. These relationships are interesting yet under-explored. A previous study also investigated the CSR-loyalty relationship through the evidence collected from the banking sector. Understanding the relationship between CSR and loyalty is vital for several reasons. First, in today's highly volatile market, high-quality products or services alone are not enough to impress customers; instead, they are looking for unique, dynamic, creative, and memorable consumption experiences (Gilmore & Pine, 2002). Second, firm innovativeness positively impacts the firm's overall performance (Mizik & Jacobson, 2008). Third, firm innovativeness can intensify customers' willingness to undertake a new experience (Haberland & Dacin, 1992).

However, besides the growing significance of CSR, a significant research gap still prevails, which needs to explore in the context of CSR and customer loyalty (Islam et al., 2021). Fundamentally, most of the research linking CSR to consumer loyalty was mainly recorded in developed countries. Notably, limited research had explored the role of CSR in the banking sector of developing countries. Therefore, without a detailed analysis of this topic, it will be difficult for financial institutions to influence consumer loyalty using CSR in these contexts. CSR in developing countries extends the world's economies, potentially leaving a positive social impact on consumer loyalty behavior. In particular, the prior literature indicates that academic research is critically in demand across developing countries such as Pakistan.

Our study's contribution on this topic is to factor in the dramatic changes that have occurred since the emergence of the COVID-19 pandemic (Manuel & Herron, 2020). Typically, a business's honest and reliable CSR will shape stronger relationships amongst its customers and the overall public, as they have built up strong anticipation from leading brands. Throughout this crisis, this bond among the brand and customer was more expressive and long-lasting than during "peaceful" times. Therefore, the Covid-19 pandemic has offered countless opportunities for corporates to invoke their CSR policies and programs aggressively. The pandemic made prominent the notion that "we are all in this together," which certainly increased people's expectations of more socially responsible businesses (Abdullah et al., 2017; He & Harris, 2020; Sarfraz et al., 2018).

Consequently, the purpose of this study is to examine a theoretical model of CSR image and customer loyalty that overcomes the errors predominant in previous models and reflects the newest ideas from scholars about industry realities (Pérez & del Bosque, 2017). Indeed, the current study highlights the academic discussion on customer response to CSR practices. The conceptual model extends the prior literature on CSR and customer loyalty. More specifically, the study goal is to expand knowledge on the CSR activities in the banking sector, thus promoting SQ, customer satisfaction (SAT), corporate image (CI), and corporate reputation (CR). The study provides meaningful insight to management on customer loyalty, thus demonstrating the mediating relationship of SQ, SAT, CI, and CR.

In particular, to fill the research gap, this study presents dominant academic contributions, thus exploring the underlying mechanism of CSR initiatives and customer loyalty. The banking sector of Pakistan, which forms the backbone of the country's economy, facilitates the growth and development of the country's economic activities. The banking sector of Pakistan considerably depends on CSR activities. Undoubtedly, all factors illustrate the progressing significance of the CSR activities influencing customer loyalty behavior. As a result, this current investigation encourages discussion of the role of the CSR approach in customer loyalty (Aramburu & Pescador, 2019). Therefore, this study holds immense importance in business as it presents comprehensive research on CSR-related loyalty programs in the banking sector of Pakistan, which has been unexplored thus far. Fundamentally, this paper presents a detailed view of the intended topic. The analysis of the current study demonstrates the need for expanding the research in Pakistan regarding enhancing customer loyalty, brands service, reputation, and image.

METHODS

This study is a quantitative approach that adopts to collect the data from the banking sector customers. Using this technique, the researcher could easily analyze the facts and produce a neutral result. In this study, CSR is analyzed with the effect of SQ, SAT, CI, and CR on customer loyalty behaviors. In the current research, we used convenience sampling because it is based on the availability and willingness of respondents. The study focused on banking customers in Pakistan. A sample size selection of 279 respondents was determined according to the ten-time rule as a rough approximation of

a suitable sample size to ensure enough data has been collected to achieve an acceptable level of statistical power(Hair Jr et al., 2014). Surveys were used for data collection; 279 questionnaires were distributed, 230 were received, and 221 valid questionnaires were used for data analysis, with data collected from April 2021 to June 2021. Structured questionnaires were distributed for data collection, with the first part of the questionnaire including demographic information, such as age, gender, education, occupation, and income. In the second part, items for CSR, SQ, SAT, CI, CR, and customer loyalty were included (Latif et al., 2020).

Each scale item was rated on a five-point Likert scale (1- highly disagree, 2-Disagree, 3- Neutral, 4- Agree, and 5- Highly agree). We also added Zeithaml et al.'s (1996) 5-item scale of customer loyalty. The questionnaire consists of two dimensions, e.g., re-purchase intentions and word of mouth. Three items from the loyalty set were used to measure the word-of-mouth meanings, while two items were used to measure the repurchase intentions of the customers in the existing research

Table 1. Respondents Demographic

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	152	68.8	68.8	68.8
	Female	69	31.2	31.2	100.0
	Total	221	100.0	100.0	
Age	18-29 year	131	59.3	59.3	59.3
	30-39 year	70	31.7	31.7	91.0
	40-49 year	12	5.4	5.4	96.4
	50-59 year	7	3.2	3.2	99.5
	60-year-old or more	1	.5	.5	100.0
Education	Matriculation / O level	10	4.5	4.5	4.5
	Intermediate / A level	32	14.5	14.5	19.0
	Bachelor	93	42.1	42.1	61.1
	Master	59	26.7	26.7	87.8
	M.Phil. / & Above	16	7.2	7.2	95.0
	Others	11	5.0	5.0	100.0
Occupation	Self employed	20	9.0	9.0	9.0
	Employee	97	43.9	43.9	52.9
	Student	88	39.8	39.8	92.8
	Other	16	7.2	7.2	100.0
Income	Less than 15,000 PKR	49	22.2	22.2	22.2
	10,000-39,000 PKR	75	33.9	33.9	56.1
	40,000-69,000 PKR	75	33.9	33.9	90.0
	70,000-99,000	16	7.2	7.2	97.3
	100,000-139,000 PKR	3	1.4	1.4	98.6
	140,000 PKR and above	3	1.4	1.4	100.0

In this study, CSR was the independent variable. We used Carroll's (1979) 12-item scale for CSR to measure this variable. The questionnaire consists of three dimensions, i.e., legal, ethical, and philanthropic word-of-mouth intentions. Mediating variables facilitate the relationship between dependent and independent variables. SQ, SAT, CI, and CR were used as the mediating variables in this study. SQ was measured according to six items on a scale (Lewis & Mitchell, 1990). SAT was measured with a four-item scale (Creswell & Creswell, 2017). Similarly, the current study measured CI using an eight-item scale taken from Nguyen and Leblanc (2001) and Williams & Moffitt (1997). CR was measured using four items (Özkan et al., 2019). The Structural Equation Modeling (SEM) technique was applied to test and evaluate multivariate causal relationships among study variables.

Table 1 shows study demographic variables include gender, age, education, occupation, and income. Respondents' demographic information was collected over these five variables. As deliberated earlier, 279 questionnaires were distributed to the banks' customers. In this study, 221 respondents, of which 152 were male and 69 were females. The ratio of males to females was 68%. The researcher designed five age groups to measure the age level of respondents. Out of 221 respondents, 131 respondents fall into the 18-29 years old category, 70 respondents 30- 39-year, 12 respondents were 40-49-year, seven respondents were 50-59-year, and one respondent belongs to the 60-year or more category.

There were 59% of customers whose age was between 18-29. The researcher designed six groups to measure the education level of respondents. Out of 221 respondents, ten respondents were matriculation / O level, 32 respondents were intermediate / A level, 93 respondents hold Bachelor's degrees, 59 respondents were Master's degree holders, 16 respondents studied M.Phil. degree, and 11 respondents belongs to another qualification category. Most of the respondents have bachelor's qualifications. In this study, we designed four groups to measure the occupation level of respondents. Out of 221 respondents, 20 respondents were self-employed, 97 respondents were employees in different organizations, 88 respondents were students, 16 respondents belonged to another category. Out of 221 respondents, 49 respondents' income was less than 15,000 (Pakistani Rupee), 75 respondents' income level was between 10,000-39,000, 75 respondents' income level was between 40,000-69,000, while 16 respondents' income level was between 70,000-99,000.

RESULTS AND DISCUSSION

Consequently, Cronbach's alpha was measured to check the variables and data reliability. Cronbach's alpha is the reliability coefficient, and its standard range is from 0 to 1. When the values are close to 1 of the items or variables, it indicates higher reliability of all items or variables. Table 2 presents Cronbach's alpha values for the current study. The reliability of measurements was measured by using WarpPLS 4.0. The results for Cronbach's alpha propose that all measures in this study ranged from 0.77 to 0.87, which are reliable. Chin et al. (2003) suggested that composite reliability

acceptable values should be above 0.70. The result of our study stated that the values of all variables in the composite reliability model exceed the recommended value of 0.70.

Table 2. Reliability Statistics

Variables	Cronbach's Alpha	Number of Items
CSR	0.814	12
CI	0.878	8
CR	0.817	4
SAT	0.779	4
SQ	0.776	6
CL	0.800	5

WarpPLS 4.0 also examined the discriminant validity of measurements and factor loading is used to access the convergent validity aspects. Factor loading helps to measure the strength of the linear correlation among the measuring items and the latent variable. High factor loadings indicate exceptional convergent validity.

Table 3. Combined Loadings and Cross-Loadings *

	CSR	Loyalit	SerQual	Satisf	Cimage	Creput
CSR1	0.506	0	-0.341	0.199	0.302	-0.05
CSR2	0.555	0.091	0.001	0.039	0.091	-0.072
CSR3	0.687	-0.155	0.097	0.002	0.32	-0.059
CSR4	0.46	-0.167	-0.084	0.547	0.303	-0.322
CSR5	0.586	-0.234	0.22	0.336	0.302	-0.202
CSR6	0.628	-0.167	0.086	0.258	0.316	0.016
CSR7	0.504	-0.104	-0.057	0.195	0.273	0.139
CSr8	0.306	0.187	-0.317	0.081	0.068	-0.035
CSR9	0.667	0.129	0.07	-0.378	-0.444	0.164
CSR10	0.663	0.212	0.012	-0.326	-0.494	0.118
CSR11	0.597	0.138	0.061	-0.361	-0.434	0.058
CSR12	0.679	0.09	-0.005	-0.26	-0.321	0.12
CL35	-0.3	0.653	0.185	-0.139	-0.1	0.327
CL36	0.076	0.696	0.04	0.058	-0.062	0.04
CI37	0.067	0.831	-0.094	0.09	0.046	-0.13
CL38	0.032	0.843	-0.094	0.048	-0.015	-0.046
CL39	0.083	0.723	0.012	-0.09	0.114	-0.129
SQ29	-0.056	0.222	0.585	0.235	0.337	-0.035

	CSR	Loyalit	SerQual	Satisf	Cimage	Creput
SQ30	-0.104	-0.051	0.735	0.009	0.335	-0.012
SQ31	0.106	0.079	0.732	-0.099	0.034	0.111
SQ32	0.045	-0.182	0.764	0.001	-0.171	-0.033
SQ33	-0.008	0.004	0.719	-0.151	-0.276	-0.086
SQ34	0.004	-0.022	0.592	0.061	-0.236	0.059
SAT25	-0.004	-0.069	-0.255	0.801	0.178	0.039
SAT26	0.114	-0.173	-0.079	0.824	0.005	-0.036
SAT27	-0.018	0.088	0.179	0.744	-0.134	0.048
SAT28	-0.105	0.178	0.184	0.741	-0.064	-0.051
CI13	0.007	-0.05	-0.213	0.12	0.631	-0.274
CI14	-0.01	-0.045	-0.152	0.115	0.808	-0.133
CI15	0.024	0.056	-0.155	0.193	0.799	-0.075
CI16	0.025	0.037	-0.065	0.009	0.828	-0.077
CI17	-0.008	0.023	0.062	-0.073	0.771	-0.049
CI18	0.01	-0.196	0.21	-0.005	0.767	-0.133
CI19	-0.04	-0.08	0.172	-0.16	0.654	0.37
CI20	-0.017	0.272	0.173	-0.253	0.654	0.462
CR21	-0.121	0.19	-0.004	-0.179	0.036	0.815
CR22	0.105	-0.049	-0.071	0.085	-0.02	0.847
CR23	-0.055	-0.06	0.062	0.073	-0.071	0.789
CR24	0.07	-0.085	0.019	0.021	0.057	0.772

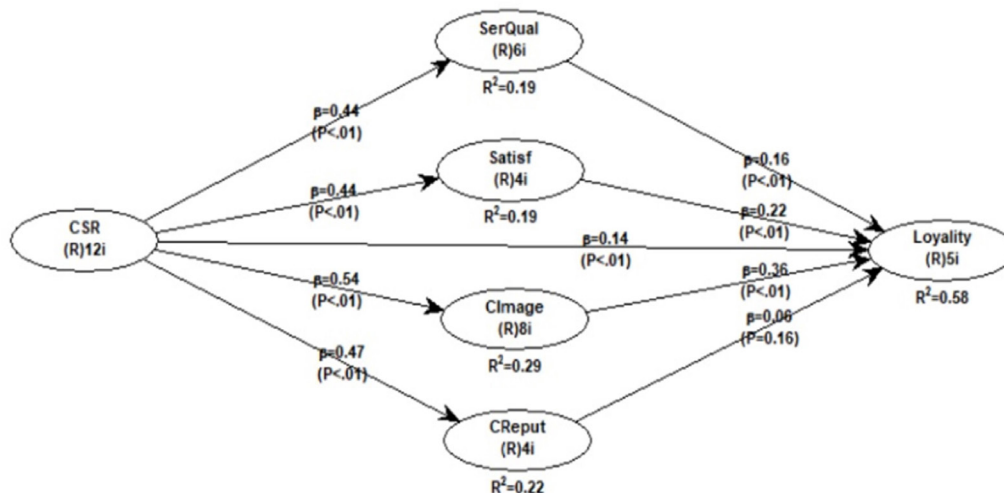
The discriminant validity demonstrates that there was no powerful relationship among variables. Precisely, variables show the highest values of outer loading of an indicator on other variables. Table 3 presents cross loading, and values indicate that all the values are within range.

Table 4. Skewness and Kurtosis Values

Variable	Skewness	STD. Error	Kurtosis	STD. Error
CSR	0.158	0.164	-0.265	0.326
Image	-1.126	0.164	1.606	0.326
SerQual	-0.046	0.164	-0.964	0.326
Satisfaction	-0.799	0.164	0.476	0.326
Loyalty	-0.848	0.164	0.794	0.326
CorReputation	-0.722	0.164	0.446	0.326

Skewness and kurtosis are used to check the normality of data. Kurtosis denotes how "flat" is a distribution and measures the degree to which observations bunch around a midpoint of the data. Skewness expresses "lean" distribution. Kurtosis will be positive when the observations group is more to the left and tail is longer at the right. However, Kurtosis is negative when observation is closer to the right and the tail is longer at the left. Normal data distribution is considered when kurtosis is between -2 and +2. common thumb rule values are -2 to +2. Data is considered asymmetric in skewness if the values are greater than twice its standard error value. Table 4 presents the values of variables for skewness and kurtosis of study. The Skewness value of CSR is 0.158, corporate image (-1.126), service quality (-0.046), customer satisfaction (-0.799), customer loyalty (-0.848) and corporate reputation (-0.722). In this study, the values of Kurtosis are within the range -2 and +2. In skewness, none of the values is less than twice its standard error, which shows that data is normally distributed.

Figure 1. Path Analysis



The correlational analysis showed the relationship between study variables. Pearson correlation was applied to variables to check their relationship. +1 shows that variables are perfectly positively correlated, while -1 shows that variables are negatively correlated. In the current study, all variables have a positive correlation, and the significance level is less than the P-value, so correlation exists in this study (see table 5). The sample size in this study is 221 respondents.

WarpPLS 4.0 software was also used for structural equation model analysis that explains the study's objectives. The result showed that the measurement model test is statistically accepted goodness of fit among the data and the proposed measurement model. Table 6 presents various goodness-of-fit statistics. Average path coefficient (APC) value is 0.313, Average R-squared (ARS) value is 0.293 and Average adjusted R-squared (AARS) value is 0.289.

Table 5. Correlation Analysis

		CSR	Image	SerQual	Satisfaction	Loyalty	CorReputation
CSR	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	221					
Image	Pearson Correlation	.448**	1				
	Sig. (2-tailed)	.000					
	N	221	221				
SerQual	Pearson Correlation	.390**	.501**	1	*		
	Sig. (2-tailed)	.000	.000				
	N	221	221	221			
Satisfaction	Pearson Correlation	.358**	.655**	.544**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	221	221	221	221		
Loyalty	Pearson Correlation	.484**	.685**	.542**	.636**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	221	221	221	221	221	
CorReputation	Pearson Correlation	.392**	.607**	.399**	.553**	.521**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	221	221	221	221	221	221

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

Figure 1 showed the path coefficient among CSR and loyalty (0.14 at p-value < 0.01), which is regarded as significant at a p-0.05 level of significance. Baron & Kenny (1986) presented the first causal step of mediation, satisfying it in the current study. It showed the direct path effect between the independent variable (CSR) and dependent variable (loyalty).

Table 6. Goodness-Of-Fit Indices

Measure	Value	Standard
Average path coefficient (APC)	0.313	P<0.001
Average R-squared (ARS)	0.293	P<0.001
Average adjusted R-squared (AARS)	0.289	P<0.001
Average block VIF (AVIF)	1.882	Acceptable if ≤ 5, ideally ≤ 3.3
Average full collinearity VIF (AFVIF)	1.982	Acceptable if ≤ 5, ideally ≤ 3.3
Tenenhaus GoF (GoF)	0.395	Small ≥ 0.1, medium ≥ 0.25, large ≥ 0.36
Sympson's paradox ratio (SPR)	1	Acceptable if ≥ 0.7, ideally = 1
R-squared contribution ratio (RSCR)	1	Acceptable if ≥ 0.9, ideally = 1
Statistical suppression ratio (SSR)	1	Acceptable if ≥ 0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	1	Acceptable if ≥ 0.7

R-square measure from endogenous latent variables (constructs) and the model's path coefficients, represented in Table 7. The path coefficient must be significant for a valid relationship (Chin, 1998). The R² value is 0.02, which indicates a weak relationship between criterion and predictor variables with p-value loyalty and CSR with p < 0.01 which is significant at P≤0.05 level of significance, and path coefficient β value of 0.14, which was significant.

Table 7. Hypothesis Testing

Hypothesis	Path Coefficient	R ²	P-Value	Effect Size	Supported
Csr-Loyalty	0.14	0.58	<0.01	0.019	Yes

The R-square measure of endogenous latent variables for indirect and total mediation effects shows in Table 8. Preliminary assessment of structural relationship was conducted in the direct effect model: inner model and hypothetical framework. The path coefficient must be significant for a valid relationship. For the indirect and partial mediation effects, R² values are 0.19, 0.58, 0.29, and 0.22, respectively, indicating relationships for both indirect and partial mediation effects. Mediation essentially answers “how” the relationship between dependent and independent variable gets exaggerated by a middle variable (Baron & Kenny, 1986; Judd & Kenny, 1981; MacKinnon et al., 2007). In our study, partial mediation exists.

This study considered the dimension of CSR to investigate its influence on customer loyalty intentions. Our research aimed to study the role of CSR in Pakistan in improving customer loyalty with SQ, SAT, CI, or CR acting as a mediating effect (Latif et al., 2020). We attempted to explain the impact of banking CSR on sustaining customer retention. Further, vital factors (i.e., CR, SQ, SAT, and customer perception) were also integrated into the proposed theoretical framework to retain the customer.

Table 8. Structural Indirect and Total Mediation Effects

Hypothesis	Path coefficient	R ²	p-value	Effect size	Supported
CSR-SerQual	0.44	0.19	<0.01	0.06	Yes
SerQual-Loyalty	0.16	0.58	<0.01	0.088	Yes
CSR-satisf	0.44	0.19	<0.01	0.189	Yes
satisf-LOYALTY	0.22	0.58	<0.01	0.192	Yes
CSR-CI	0.54	0.29	<0.01	0.141	Yes
CI-LOYALTY	0.36	0.58	<0.01	0.25	Yes
CSR-Cror REP	0.47	0.22	<0.01	0.22	Yes
Cror REP-LOYALTY	0.06	0.58	<0.01	0.029	Yes

It is widely established in the customer-related CSR literature that customers' positive perceptions of CSR may provide the necessary conditions for them to develop positive feelings about a firm (Martínez & Del Bosque, 2013). These positive feelings and a sense of attachment indicate customers' loyalty to that firm (Fullerton, 2003; Morgan & Hunt, 1994). However, no prior studies examined the relationship between CSR and customers' extension commitment. The present study attempts to fill this void by establishing the relationship between CSR and customers' loyalty.

Over the past century, gaining customer loyalty has become the ultimate goal of businesses. As such, CSR has come to occupy a significant position in the business field. The CSR approach is a vital tool manifesting social responsibility practices (i.e., moral perspectives). Given this statement, studies have shown that customers are less likely to reciprocate toward a firm that does not add value via good social deeds (e.g., CSR) (Newman et al., 2020). In a transparent business world, customers' loyalty is increasingly influenced by the company's CSR actions. As such, studies have indicated a direct and significant relationship between CSR on customer loyalty (Ajina et al., 2019). The research suggests companies engage in CSR activities, thus improving customer loyalty performance (Cuesta-Valiño et al., 2019). Hence, the current study's results are consistent with the previous literature. Other studies have shown that customer loyalty in the service industry increases the responsive rate of customers. This current study investigates the mechanism of CSR initiatives affecting customer loyalty in the banking sector of Pakistan. The current findings support prior research, finding that CSR is a dominant marketing strategy for banks, bolstering customer loyalty (Raza et al., 2020).

In the 21st century, the concepts of CSR and innovation have gained management attention. Empirically, CSR and business innovation develop a solid corporate foundation (Bocquet et al., 2019). Prior research proposes a positive and significant influence of CSR on firms' innovation (Bahta et al., 2020). Hence, as per those prior studies, the current findings indicate a positive relationship between firms' CSR action and business innovation. Moreover, CSR might assist service organizations to maintain long-term customer relations that will ultimately lead to sustainable competitive advantage.

The importance of business reputation, SQ, and satisfaction by way of mediators was recognized. Previous CSR studies have revealed that customers' positive observations of a business's CSR activities indirectly affect the product or SQ (Khan et al., 2015).

The current study has taken a step further by combining the multiple dimensions of CSR, CR, SAT, and CI into one theoretical framework in the banking context (Lee et al., 2020). CSR not only enhances customers' perceptions but also manifests the abilities of the firm (Poolthong & Mandhachitara, 2009), the firm's innovative capabilities (Luo & Bhattacharya, 2006), and commercial expertise (Pérez & del Bosque, 2013). In particular, CSR brings immense benefits for numerous companies, thus enhancing CI and firms' loyalty (Lu et al., 2020). Our study results are consistent with the previous findings. Earlier researchers argued that investments in CSR activities create positive perceptions of SQ in customers' minds. In other words, customers treat socially responsible firms as reputable SQ firms.

CONCLUSION

In recent years, CSR has become the most studied topic in academics, thus ensuring the acceleration of societal growth and customer responsiveness (i.e., loyalty). Given the growing importance of customer loyalty in the service world, this study presents a loyalty enhancement model, integrating the perspectives of CSR, SQ, SAT, and brand image. Significantly, the study highlights CSR as a vital tool, enhancing firms' services. Furthermore, it also confirms that CSR initiatives enhance firms' competitiveness, thus establishing brand loyalty and image. It states that CSR and SQ enhance the customer experience, boosting their satisfaction and trust in a service, and thus making them a loyal service user.

CSR perceptions of customers benefit a business in several ways. First, CSR perceptions impact the customers' perceptions of the business' innovative capabilities. Second, they help in improving the CI. Third, these perceptions subsequently lead to achieving customer loyalty. This study therefore provides insights and enhances the existing knowledge in the customer-related CSR literature. To explicitly explain the loyalty of the service users, the banking industry of Pakistan was selected for investigation. Our research findings have several suggestions for the service industry in the overall banking sector. With the increasing competition in the business world, customers tend to prefer service firms that are innovative in their business style and also actively engaged in corporate philanthropy. Therefore, engaging in CSR activities will enhance customers' CSR perceptions and simultaneously add to customers' perceptions of firm innovativeness.

Significantly, CSR contributes to magnifying CI because it provides the necessary information about the firm's social image. Customers tend to develop positive perceptions of a firm using this knowledge and information, eventually leading to customer loyalty. Second, CSR creates a sense of belonging and emotional feeling among customers. Social identity theory (SIT) stated that customers tend to develop affiliations with firms with

similar identities. Therefore, CSR contributes positively to building customers' affective commitment, which eventually leads to customer loyalty. Third, CSR activities may reflect a firm attractive and socially responsible firm that convinces customers to enter into a longer-term relationship. This may act as a restraint in terminating a relationship since customers tend to develop the desire to maintain a long-term relationship with a firm given the mental calculations and high switching costs associated with the alternative. Therefore, CSR may be a strong antecedent of customers' continuance commitment, affecting customers' loyalty intentions.

This study highlights the notion that CSR activities have a significant impact on customers' loyalty as well as enhancing the overall well being of society. Such activities include talent-spotting programs for promoting education, poverty alleviation programs, gender-disparity alleviation programs, assisting in social events such as anti-cancer campaigns, promoting arts and music, investing in social works such as helping in building schools, health care centers, and vocational institutes, demonstrating respect toward societal and environmental care such as paperless banking, energy preservation by using energy-efficient lights, or promoting the use of solar energy, and advocating anti-climate change campaigns.

The current study was conducted in the banking services context. Consequently, one should take care when generalizing the results to other services in dominant contexts, such as tourism and hospitality, insurance, telecommunications, etc. To generalize the results to other service settings, a cross-service study and a cross-cultural data set may provide meaningful insights. The present study was conducted in an emerging economy where CSR awareness and CSR Skepticism have always been a problem. The present study excluded CSR Skepticism and CSR awareness from the theoretical model. Therefore, future researchers may incorporate these aspects in the theoretical framework to extend this vein of research. Our study was conducted in the context of an emerging economy. Replicating the study in another developing context would make the results more generalizable. Moreover, a comparative study of the relationships in developing and developed economies may provide meaningful insights for future research.

CSR has become a fundamental concern for policymakers and governmental organizations, highlighting institutions' abilities to promote CSR initiatives. This study confirms that strengthening CSR programs leads to an improvement in customer loyalty behavior. Indeed, customer-loyalty programs are of great significance for Pakistan governments and banks, enhancing their reputation and image. Hence, this study illuminates the growing importance of CSR actions for acquiring business success, subsequently guiding policymakers, managers, and market scholars.

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