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## Impact of Perceived Corporate Social Responsibility on Banks' Financial Performance and the Mediating role of Employees' Satisfaction and Loyalty in Pakistan

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### ABSTRACT

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Inspired by the global increase in awareness of corporate social responsibility (CSR), this paper is an attempt to explore the influence of CSR on bank employees' satisfaction and loyalty and banks' financial performance. It was assumed there could be differences in the perception of CSR among employees toward the CSR initiatives being undertaken by the banks they work for. Employees' level of awareness and extent of involvement with various CSR activities could affect their satisfaction and loyalty. This study used regression analysis for hypothesis testing. Its findings reveal that CSR positively affects employee satisfaction and loyalty as well as banks' financial performance; employee satisfaction positively affects employee loyalty; and employee loyalty positively affects banks' financial performance. Hence, bank management should focus on CSR from the perspective of employees to contribute to employee satisfaction and loyalty, and ultimately, to enhanced financial performance. Suggestions and inferences for future research and banking sector practices are suggested based on these results.



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### 1. Introduction

Although corporate social responsibility (CSR) entered the lexicon of business in the 1960s, it took more than thirty years to be formally institutionalized by prominent business organizations, corporate firms and financial institutions. The financial crisis of 2008 has been mainly attributed to negligence and ineptness on the part of commercial banks, and so tarnished the reputation of financial institutions and public trust toward banks. To redeem their damaged reputations and the public trust, banks and financial intermediaries started implementing ethical, legal and social practices under the umbrella of CSR. Thus, the concept of CSR was operationalised, marking its implementation in

the banking sector.

The corporate business world is progressively transforming from being concerned only with profit to being entities that care for their communities, encompassing many diverse stakeholders. In the present business milieu, firms and financial institutions comprehend that they cannot succeed by ignoring their immediate society (Maqbool & Zameer, 2018). Since each business is cognitively, if not practically, using resources of society, it becomes obligatory for them to reciprocate and return something in the form of community development. Dahlsrud (2008) states that even those businesses who are producers of economic wealth cannot flourish by pursuing only economic feats. They also must undertake various social, cultural and community development measures. CSR can be defined as a measure used to assess how much a socially responsible firm has a positive impact on the adjacent society (Salma Sairally, 2013).

Banks now consider CSR an important facet of their strategy to remain viable and attractive. The CSR activities of commercial banks are generally intended to support good financial performance in addition to considering the environmental, ethical and social responsibilities of the business. They are spending considerable amounts, in terms of both cash and in-kind donations, on various social and welfare programs, as well as employees' training and formation of volunteer cadres (Luo & Bhattacharya, 2006). However, the main dimensions of their CSR strategies remain economic and social.

The linchpin in social-economic processes are shareholders and a few important stakeholders. Hence, banks are carrying out extensive CSR activities are perceived to have a better reputation among the public as well as their suppliers, employees and customers. Once banks meet the demands of key stakeholders by maintaining a fine balance between primary stakeholders and shareholders, they enjoy a good reputation among the public, which leads to sustainable development and improved financial performance (Dusuki & Abdullah, 2007).

The prime objective of each business is to generate revenue; different social and welfare activities are subsidiary activities, suitably tailored to achieve the main goal (Shum & Yum, 2010). The relationship between CSR and financial performance may be positive, negative, or insignificant, depending on several intermingling factors and boundary conditions. Most CSR activities are considered to have a positive impact; however, such activities can "boomerang" and fail to generate the desired results.

Although the impact of CSR on financial performance in the banking sector has been extensively studied, very little research is available on the impact of CSR on employee satisfaction, in terms of its impact on employee loyalty and banks' financial performance. This paper is an attempt to empirically substantiate the impact of perceived CSR on employee satisfaction, employee satisfaction on employee loyalty, and employee loyalty on financial performance. The significance of this study is its contribution to the limited literature on this subject by developing separate questionnaires, as well as a theoretical framework for the employee model by adapting and adopting constructs and items of earlier research work undertaken these topics.

## **2. Theoretical Background/Literature Review and Hypotheses**

### **2.1 CSR and its Dimensions**

The definition and concept of CSR can be traced back to that of Howard Bowen, though a number of definitions and concepts have been introduced since. Bowen (1953, as cited in Carroll, 1991) defined CSR as:

...an obligation of businessmen to follow and implement those policies, to make those decisions, or to undertake those actionable thrust lines which are desirable and in line with objectives and also create values in our society.

CSR encompasses philanthropic or charitable, economic, legal and ethical responsibilities that society expects from any firm at a certain time (Carroll, 1991). There has been a divergent view of whether CSR is a shareholder's responsibility or a social obligation. CSR as social obligation is explained through stakeholder theory, which advocates that a corporation, as well as its shareholders, must also consider the interest of other stakeholders. Social contract theory accentuates this, and states that, as society provides firms with the resources to operate, firms should adhere to societal norms and values in return, and also contribute to the community through various social welfare programs.

## 2.2 CSR and Employee Satisfaction

Heathfield (2019) defines employee satisfaction (ES) as “whether employees are happy and fulfilling their desires and needs at work.” Numerous measures profess that ES is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace (Heathfield, 2019). Employee attitudes usually demonstrate the morale of the company. Contented employees are crucial for enhanced customer service and sales because they personify the company to the public (Shetrone, 2011).

ES is a personal perception or appraisal and can be described as fit between employee and the firm. Employees who are satisfied with their jobs are more likely to have an exemplary attitude and behavior toward customers, and to treat customers with greater energy and devotion. Gounaris and Boukis (2013) describe that employee job satisfaction is paramount importance to enhance the customer retention and loyalty. Notably, CSR is a measure that can improve the quality of life of not only community but also its work force—employees and their families (Aguilera-Caracuel et al., 2015). It can be premised that ES and CSR are interrelated, where ES significantly affect overall CSR (Khartabiel & Saydam, 2014). ES is considered as an asset, as well as a resource for an organization; hence, banks should make efforts to enhance ES and motivation. One study has emphasized that CSR initiatives by organizations increase ES and consequently increases employees’ commitment (H. R. Kim et al., 2010).

**H1.** Employees’ perception of CSR positively influences ES

## 2.3 CSR and Employee Loyalty

DeFranzo (2012) defines employee loyalty (EL) as meaning employees are “devoted to the success of their organization and believe that being an employee of this organization is in their best interest.” Loyalty not only means that they intend to stay with the firm, but that they do not pursue alternate job opportunities (DeFranzo, 2012). Sturt and Nordstrom (2019) state that:

Loyalty just might be one of the most elusive concepts to grasp—for organizations, leaders, and employees. It’s one of those things that is obvious when it exists, crystal clear when it doesn’t, and sadly, nearly impossible to pinpoint when it lands somewhere in the gray area. Ironically, that’s where most people fall—in the gray.

Collins (2019) describes a loyal employee as someone who is passionate and engaged in the success of the company, even if it means renouncing/forgoing their own personal time and interest. Loyalty towards any organization increases the length or duration of employee retention with an organization. EL is an employee’s psychological commitment towards their company.

Kim and Wright (2011) argued that ES is essential for an organization to build employee commitment. EL is attained through the inculcation of trust, creation of an enhanced working environment and acknowledgement of employees’ effort (Garlick, 2010). Loyalty can be viewed as the psychological and emotional resolve of employees toward their firm (Paulík et al., 2015). To increase EL, organizations should pursue CSR as a culture. It should be shored up by its employees. It is posited that CSR activities glorify a firm/bank, which can help it to attract and retain loyal, committed and skilled employees. With reduced employee turnover, recruiting and training costs will be reduced, which will affect overall FP.

Adewale *et al.* (2018) emphasized that effective communication of CSR activities, including economic, social and environmental initiatives, not only enhance the reputation of firm, but also glorify their brand, which helps to attract and retain loyal, committed and skilled employees. Zhu *et al.* (2014) claimed that firms must enhance ES through CSR in order to enhance EL.

**H2.** Employees’ perception of CSR positively influences EL

**H3.** ES positively influences EL

## 2.4 CSR and Financial Performance

A number of research studies have been conducted in the last three decades to understand the relationship between CSR and financial performance (FP) by testing its direction and strength. No universal conclusion can be drawn for

specific sectors or industries, as studies have found that the correlation between CSR and FP can be significantly positive *or* negative, and in some cases, non-significant, depending on the context (Platonova et al., 2018). Such inconsistency is partially ascribed to a lack of understanding regarding the channels through which CSR influences FP (Margolis & Walsh, 2001), and may be partially due to inappropriate model specification and choice of methodology (McWilliams & Siegel, 2000).

Islam *et al.* (2012) described CSR as a long-term strategy that contributes to long-term value for shareholders, which increases sustainability and builds a company's reputation. In addition, CSR is not taken only as a road to a social responsibility, but as a means to increase a multi-faceted business's profit and return. Kanwal *et al.* (2013), concluded that costs spent on CSR activities influence long-term development, and hence patience is required to witness the positive outcomes. CSR also enhances companies' competitiveness through improving relationships with all stakeholders, including working relationships, and by creating new business opportunities (Maqbool & Zameer, 2018).

**H4.** Employees' perception of CSR positively influences the FP of banks

## 2.5 Effect of ES and EL on FP

ES is a product of employee motivation achieved through better addressing their needs, and once ES achieved, it results in high quality services. Banks should make efforts to enhance ES, and so costs incurred in the course of enhancing ES is to be referred as strategic investment, which is likely to produce high returns. Higher ES positively affects retention of employees by increasing EL (Paulík et al., 2015).

ES helps firm to enhance employee retention, loyalty and productivity. Once employees are satisfied, they will be more likely to provide quality care and service to customers. Employees' perception of CSR initiatives undertaken by banks is likely to impact ES, and result in enhanced employee effort and better job performance (Carmeli et al., 2007). Employees can drop the intention to leave an organization if provided with opportunities for personal development, evaluation of their individual performance, ability to express themselves, and rewards for their work. This will make employees feel that they are an integral part of the organization and encourages them to achieve the organization's goal of profit maximization (Hallowell, 1996).

Loyalty behaviors include relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising). Loyalty, in one or more of these forms, creates increased profit through enhanced revenues, and reduced costs through less staff turnover and amount spent on training of new staff (Suhe et al., 2017). They also stressed that loyal employees work more efficiently and provide quality services to clients. Based on extant literature reviews and employee-related policies, Zhu *et al.* (2014) developed items to measure employee perception of CSR. Their results emphasized that CSR activities undertaken by companies are perceived favorably by employees. Companies must build ES through CSR initiatives if they want to improve EL. A more committed staff performs well, attracts more customers, avoids wasting time, and remains motivated and loyal to banks' objective of profit.

**H5.** ES leads to an increase in FP

**H6.** EL leads to an increase in FP

**H7.** ES mediates the relationship between CSR and FP

**H8.** EL mediates the relationship between CSR and FP

## 3. Methodology

### 3.1 Questionnaire Development and Data Collection

Carroll (1991), Ehsan *et al.* (2018) and Xie *et al.* (2017) developed customized questionnaires for their studies. Since no preexisting questionnaire was available for adoption for this study, a customized questionnaire was developed by adapting questions from Carroll (1991), Ehsan *et al.* (2018) and Xie *et al.* (2017). A seven-point Likert scale was used to collect responses. A combination of physical delivery and collection and web-based submission and collection through e-mail was used. Pilot testing was performed on a sample of 100 respondents to assess the relevancy and efficacy of the questionnaire. This pilot sample was not included in the final sample for the study. The questionnaire was then modified, and the revised questionnaire submitted to experts (professors and bank managers) for assessment of its design. Seven sub-variables chosen with reference to the literature were used to measure CSR in this study.

The questionnaire was distributed in randomly selected clusters, and out of the 400 questionnaires printed and emailed, 335 questionnaires (83%) were returned. Multivariate outliers were tested using data from these 335 respondents. Using the Mahalanobis distance (Drumond et al., 2019; Rousseeuw & van Zomeren, 1990), 25 responses were identified as outliers and deleted, leaving a final sample of 310 responses used for this study. The descriptive analysis of this sample is presented in Table 1.

Cluster	%	Work Experience (years)	%	Age	%
Bahawalpur	12.9	2	10.6	Up to 25 years	17.1
Bahawalnagar	11.6	3	22.6	26–35	49
Rahim Yar Khan	8.1	4	13.5	36–45	26.8
Lahore	11.3	5	14.2	46 and above	7.1
Multan	10	>5	39		
Lodhran	10.9				
Vehari	10.3	<b>Education</b>		<b>Gender</b>	
Khanewal	6.7	Undergraduate	36.2	Male	88.7
Kharian	9.1	Masters	54.2	Female	11.3
Rawalpindi	9.1	Post-graduate	9.6		
<b>N = 310</b>					

### 3.2 Preliminary Tests

#### 3.2.1 Normality Test

The impact of small skewness and kurtosis vanishes as sample size exceeds 200. Based on a sample size of 310, any skewness and kurtosis will have little effect on overall results. The skewness and kurtosis are below the maximum acceptable standard of 1 and 3, respectively (Bai & Ng, 2005) (Table 2).

	N	Skewness		Kurtosis	
		Statistic	Value	SE	Value
CSR	310	-.517	.138	-.051	.276
ES	310	-.528	.138	.303	.276
EL	310	-.498	.138	-.371	.276
FP	310	-.785	.138	.457	.276
Valid N (listwise)	310				

#### 3.2.2 Multicollinearity Test

The tolerance values for CSR, ES and EL reveal that no multicollinearity exist among the IVs (Table 3). Moreover, the VIF values for CSR, ES and EL are well within the acceptable standard of 5 proposed by Hair *et al.* (2010).

	<b>Tolerance</b>	<b>VIF</b>
CSR	0.734	1.363
ES	0.734	1.363
EL	0.623	1.605
Dependent Variable: FP		

### 3.2.5 Reliability Analyses

The value of Cronbach's alpha for the sampling frame based on 37 distinctive items is 0.915, far above the minimum acceptable standard of 0.7 (Ursachi et al., 2015).

### 3.3 Inferential Analysis

#### 3.3.1 Pearson's Correlation Coefficient Analysis

Pearson's correlation coefficient identifies the strength of association among IVs and DV. All IVs—CSR, ES and EL—are significantly correlated with FP (Table 4).

		<b>FP</b>	<b>CSR</b>	<b>ES</b>	<b>EL</b>
<b>FP</b>	Pearson Correlation	1.000	.541	.423	.459
	Sig. (1-tailed)		.000	.000	.000
	N	310	310	310	310
<b>CSR</b>	Pearson Correlation	.541	1.000	.614	.516
	Sig. (1-tailed)	.000		.000	.000
	N	310	310	310	310
<b>ES</b>	Pearson Correlation	.423	.614	1.000	.533
	Sig. (1-tailed)	.000	.000		.000
	N	310	310	310	310
<b>EL</b>	Pearson Correlation	.459	.516	.533	1.000
	Sig. (1-tailed)	.000		.000	
	N	310	310	310	310

### 3.3.2 Regression Analysis

The results of regression analysis, presented in Table 5, reveal that the hypothesized relationships between variables in this study are significant. Hypotheses are accepted if the p-value is less than 0.05.

<b>Hypothesis</b>	<b>Variables</b>	<b>Model Summary</b>	<b>ANOVA</b>	<b>Coefficients</b>
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		R <sup>2</sup>	df	F	Sig.	Beta (β)	S.E.	T	P Value	Result
H1	CSR → FP	0.293	1	127.712	0.000	0.541	.066	11.301	.000	Supported
H2	CSR → ES	0.377	1	186.406	0.000	0.614	.050	13.653	.000	Supported
H3	CSR → EL	0.266	1	111.868	0.000	0.516	.058	10.577	.000	Supported
H4	ES → EL	0.284	1	122.023	0.000	0.533	.052	11.046	.000	Supported
H5	ES → FP	0.179	1	67.268	0.000	0.423	.065	8.202	.000	Supported
H6	EL → FP	0.211	1	82.333	0.000	0.459	.058	9.074	.000	Supported
H7	CSR → ES → FP	0.306	2	67.806	0.000	0.146	.075	2.424	.016	Supported
H8	CSR → EL → FP	0.337	2	78.090	0.000	0.245	.062	4.518	.000	Supported

The results presented in Table 5 indicate that all correlations investigated are significant at the 5% level; thus, all hypotheses formed are supported by the data and validated. Hypotheses 7 and 8, that ES mediates the relationship between CSR and FP, and EL mediates the relationship between CSR and FP, respectively, were further verified using the Sobel test (Table 6). Both mediations are supported by the results.

Hypothesis	Variables	Sobel test		Aroian test		Mediation established?
		Test statistic	p-value	Test statistic	p-value	
H7	CSR → ES → FP	2.370	0.018	2.361	0.018	Yes
H8	CSR → EL → FP	4.195	0.000	4.181	0.000	Yes

#### 4. Conclusions and Implications

The study has achieved its objective by empirically substantiating the impact of CSR on FP through mediation by ES and EL. The model was tested through regression analysis and Sobel tests. The development of a new questionnaire and research models are also contributions to the existing literature, which can be further refined by future studies. This study reveals that ES and EL, enhanced by CSR activities, contribute to a better organizational culture and leads to better FP. Banks must use their resources to undertake CSR activities in ways that produce benefits for employees in order to attract and retain them.

As far as policy implications are concerned, there is an important role for government in promoting and enforcing CSR in banking sector. Government should apply a two-pronged strategy: first, motivating the banking sector to implement CSR initiatives with incentives, and second, ensuring strict implementation of CSR rules and guidelines. The publicity around various CSR activities and banks' outreach to customer and employees is vital for enhancing public awareness. There is a lack of consensus on what activities should be included or excluded from the umbrella of CSR. Consequently, some firms may exaggerate their CSR activities to improve their image, while others may underreport CSR activities as they consider it "only" charity. Therefore, there is a need to more clearly define the various dimensions and activities that constitute CSR. The uniformity of CSR definitions can be increased in concert with international organizations.

#### 4.2 Limitations and Recommendations

This study has the limitations inherent to cross-sectional research design, which was adopted primarily due to time and resource constraints. A future longitudinal and multi-method study that includes both quantitative and qualitative data collection may provide further theoretical details. This study examines CSR practices only in the banking sector and only in Pakistan. Future research may be conducted in other contexts, for instance, a wider region with a greater number of banks.

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