An Examination Regarding the Role of Corporate Social Responsibility (CSR) within Financial Institutions: A Literature Review

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Abstract: The specific literature review is to demonstrate the evidence showing that CSR is related to improved brand trust and consumer loyalty, two variables that have been found to improve the public image of financial institutions. In line with the topic of the literature review, the purpose is to examine the Corporate Social Responsibility (CSR) of organizations to gain insights into the relationship between CSR and the creation of brand trust and consumer loyalty based on the scores on the instruments used to measure the applied relationships.

Keywords: Corporate Social Responsibility (CSR), brand loyalty, consumer trust

INTRODUCTION

There are different reasons why leaders of organizations choose to adopt socially responsible behaviors, with the most recognized reason as doing what is right to the society and the environment (Dahlsrud, 2008). Other motives entail monetary advantages, which include: (a) receiving favorable status in the industry, (b) improving the organization’s reputation due to its support of the environment, and (c) improving employee satisfaction (Balmer, 2001). One of the major reasons organizations participate in socially responsible approaches is the probable monetary achievement that can come from it. Companies often show a financial loss or a small positive difference in the first three years because most of the benefits of socially responsible behavior occur over the long term. Several aspects related to the environment result in creating cost savings, such as building new offices that use solar power or geothermal heating and air. Many companies also pursue Leadership in Energy and Environmental Design (LEED) certifications, a designation that requires third-party verification that a building is designed, built, and maintained in a sustainable and energy-efficient manner (Coupland, 2005).

An organization’s reputation can be a strong reason for the company to engage in socially responsible behavior (Ali, Rehman, Ali, Youasf, & Zia, 2010; Ellemer et al., 2011). Positive exposure and publicity may arise from socially responsible behavior, which improves an organization’s overall public image. However, the implication of negative exposure such as scandals and ethical misconduct is damaged reputation, which can lead to loss of customer trust and significant financial costs to an organization (Coupland, 2005).

Community involvement can occur locally or internationally. Community activities can be viewed as a way to assist others and help an organization maintain a positive reputation and acquire some positive exposure, whether locally or globally. Presently, CSR seems to be very popular among academics and businesses. However, despite the growing number of books, articles, and doctoral theses that deal with the subject of CSR, the concept remains vague and controversial (Balmer, 2001).

The concept of Corporate Social Responsibility (CSR) has been resurgent in recent years and has been one of the main areas of interest in several disciplines of management literature. This concept corresponds to the business integration of social and economic objectives (Brown, 1997). Taking into account this perspective, CSR is seen as a realization of the integration of ethical standards in the field of businesses that seem doomed to be governed solely by the profit motive. One might think that this concept represents conciliation between ethics and economics within the firm; however, both in the field of business and in the academic sphere CSR are far from receiving unanimous acceptance. According to Allouche et al. (2004), CSR and the tools that have emerged from it have evolved into a conceptual framework in which confusion and vagueness prevail. The ambiguity is due to theoretical issues related to managerial and ideological concepts. To understand the scope of these issues, one should evaluate all of the extant positions regarding CSR (Balmer, 2001).

The purpose of this research was to provide an overview of the debates surrounding CSR. If all of the polemics and controversies related to the theme are not accounted for, people will simply attempt to restore the most prominent belief or trend. Before reviewing these debates, there must be a discussion of the history of the concept of CSR (Coupland, 2005). In this framework, the concept gives rise to a difference in meaning between Europe and the United States, where CSR has emerged and gained prominence at different times. Subsequently, the focus is on the debates of the philosophical and theoretical perspectives existing at this level (Balmer, 2001).

In its expression and its current meaning, CSR primarily exists as a post-World War II concept. The advent of the concept can be traced back to the work of Bowen (1953)
who began searching around him for what would later be known as CSR. Bowen’s (1953) book, entitled “The Social Responsibilities of the Businessman” laid the foundations for CSR (Brown, 1997). The study was about how businesspersons should make decisions that are in line with the guidance and values desired by the company. It states that a firm’s incorporation of social concerns must be on a voluntary basis. If Bowen (1953) is known in literature as the father of CSR, Carroll (1999) reported that the ideas expressed in his book are not born ex nihilo, and people find traces of this concept in some early trials of management literature dating as far back as the 1930s and 1940s. Acquier et al. (2011), meanwhile, reported that the ideas presented by the author in his book were formal and that they became “fashionable” during that period. CSR has become the primary subject of research in the emerging new academic field of “Business and Society”, which is interested in the relationship between a company and its social environment (Birth, 2008).

After being applied by researchers and causing controversy among liberal academics, CSR research intensity has decreased since the mid-1980s and has moved on to other concepts such as corporate citizenship or particular approaches by the party’s stakeholders. CSR has remained a phenomenon that has almost exclusively been seen in this context as an obstacle to the liberal logic that would bend to the new world economic order, establishing a devoted economic liberalism. Europeans began to take an interest in CSR in the mid-1990s, following the actions of organizations of civil society against the companies that caused harm to their social environment or partners (Balmer, 2001).

In the United States there has been a renewed interest in the issue since the early 2000s, with bankruptcy affecting large groups like Enron, Arthur Andersen, WorldCom, and Xerox. There are two elements that explain the renewed interest in CSR: the rise of civil society, on the one hand, and corporate financial scandals, on the other. For Acquier et al. (2011), the analysis of the history of CSR reveals a “cultural contingency” of the concept. This view is shared by Arbore and Busacca (2009), for which the definition of CSR varies from one region to another and from one context to another. Most researchers rely on a duality between the US versus the European approach toward CSR. CSR as a concept is very scalable. One might even wonder if it is really a concept (Balmer, 2001). This implies that some regulation of social business is still necessary. Many researchers find that the most important management of business activities occurred after the advent of scandals (Brown, 1997).

Windsor (2001) examined the relationship between CSR, the business sector, and society. Windsor aimed to find out whether organization and society will come closer together and whether there will be a change of phase in CSR initiatives. Through utilizing Caroll’s model analysis, Windsor found three emerging alternatives to CSR, which are formation of responsibility, global corporate citizenship, and stakeholder management policies (Windsor, 2001).

Sarbutts (2003) explored how small and medium sized enterprises or companies (SMEs) practice CSR initiatives. The study showed that SMEs used a CSR in order to have a structured approach in the management of corporate reputation as well as profit maximization. Small and medium sized companies use Benefit Analysis in their societal activities. SMEs struggle for more reputation against large companies; however, they only do such activities with minimal risk. In this case, CSR can be a tool to have competitive advantage towards an organization’s competitor. Large corporations have the budget to implement CSR activities as much as they want to while SMEs have less resources. In this scenario, lack of resources can be a barrier for SMEs to stay in the market. Nevertheless, Sarbutts asserted that with proper allocation and utilization of resources, SMEs could use CSR initiatives to stay in the market and even be a competitor to the large companies.

Truscott, Bartlett, and Tywoniak (2009) explored the corporate social responsibility industry in Australia by utilizing a case study methodology. Industrialists in Australia revealed that CSR is becoming more significant in Australian organizations and stakeholders. Most business owners and social constituents of organizations perceive the economic, legal, as well as ethical roles of business in the society through CSR initiatives. The authors also concluded that CSR could be a model of corporate reputations (Truscott, Bartlett, & Tywoniak, 2009). This was also the conclusion of Lammers and Guth (2013). McWilliams and Siegel (2010) also provided the importance of CSR as a strategy in improving the company reputation. The results of the study indicated that when organizations sell products under the umbrella of CSR activities, it will lead to consumer loyalty and increased revenue. The authors of the study also emphasized the importance of advertising to the public the CSR activities of the organization. The study revealed the importance of media, television, etc. in order for the consumers to be aware of the CSR activities of the organization. However, organizations must be careful in this sector as it can improve or damage the reputation of the organization. Organizations must ensure that when they advertise their CSR activities, they must do so in such a way that it would capture the attention of consumers or clients in a good way.

In a similar case study, Shah and Bhaskar (2010) explored the corporate social responsibility of Bharat Petroleum Corporation Ltd. The authors extensively discussed the broad relationship between business and society. Organizations exist within a society. Organizations also use the resources found in society in order to prosper such as raw materials and human resources. Organizations also provide services to the individuals in the society. In the case of Bharat Petroleum Corporation Ltd., the authors found out that the corporation has done many CSR initiatives in order to give back to the society.

Hartman (2011) analyzed the importance of CSR in the food sector, especially in companies that are popular. Hartman revealed that CSR is an important aspect of these companies. However, similar to Sarbutts’ (2003) study, SMEs are less capable in organizing and implementing CSR activities to society. Furthermore, Hartman also found out that the companies in the food sector are always improving their services to the consumers. Consumers have high
preferences for brands or food organizations that have many CSR activities (Hartmann, 2011).

Brammer, Jackson, and Matten (2012) emphasized that CSR is beyond the voluntary actions of an organization. They had defined CSR under an institutional theory, which stated “corporate social activities are not only voluntary activities but it is a part of interface between business and society” (Brammer, Jackson, & Matten, 2012, p. 8). Firm policies and regulations are also necessary in order to improve the performance of the organization through CSR (Murphy & Schlegelmilch, 2013). The theory further suggested that companies should consider what form it would take in order to perform social responsibilities: historical, legal, or political (Brammer, Jackson, & Matten, 2012).

Aguinis and Glavas (2012) reviewed 588 journal articles and 102 books about CSR. The study provided a framework of CSR initiatives and actions that have an impact on both the internal and external stakeholders as well as the results of such initiatives and actions. The study enhanced the knowledge about the different levels and forms of CSR as well as the need to understand CSR with the results in mind.

Mallen (2012) explored how the trends of CSR have developed in the recent years and how these changes have affected the relationship between business and society. Mallen explained three basic things about the changes in the CRS trends. First, the business and society have become closer because of CSR efforts. The business strategies of business owners have also affected society. Because of CSR, business owners are planning their business in such a way that CSR would play a big role in it. Lastly, different organizations get a chance to work together especially when it comes to CSR activities (Mallen, 2012).

Consumer loyalty. Chaffey (2008) defined consumer loyalty as a desire on the part of the customer to continue to conduct business with a given company over time. Kotler and Armstrong (2011) used the idea of repetitive buying patterns of a particular brand as an indication of consumer loyalty. This also includes a verbal promotion of the currently used product or services by the incumbent consumer to others who have yet to try a particular product or service. The authors classified purchase behavioral loyalty into three aspects: (a) The hardcore – those who only buy one particular brand; (b) the soft-core – those who buy only a couple of brands; and (c) the switchers – those with no brand loyalty. The work of Kotler and Armstrong (2011) in this context implies that CSR efforts could convert the “soft-core” and “switcher” consumers to the “hardcore” category. Grant (2013) stated that a loyal consumer is seldom discount-oriented, associating loyalty with recognition and preference toward a particular company or its brands. The author further asserted that consumer loyalty could be enhanced through societal contributions.

Brand trust. Leaders of corporations know that CSR is linked to their reputation and brand identity (Nam & Ekinci, 2011). Smith et al. (2007) asserted that one of the marketing factors that private companies engaged in was in developing brand equity. Truong et al. (2008) also argued that most companies are distinguished by their brand and are evaluated based on how they perform in the eyes of society. This is further substantiated given that technology and web-based intelligent sources assist consumers in verifying indexes about a particular company through social responsibility. A study conducted in 2003 also suggested that brand equity can affect loyalty and these two factors can be influenced by CSR initiatives.

Theoretical Evolution of the Concept of CSR:
The perception of social responsibility began to spread across the globe in the last two decades with the advent of globalization, deregulation, less prominent economic and social roles of the state, and the development of social requirements (Panazzo, 2011). CSR appears to be a term based in the history of the affairs of businesses. The appearance of socialist policies and ethics in the current era has simply reinforced these theories (Arbore & Busacca, 2009).

The theme of CSR had evolved in the past four decades however it appeared even before researchers focused on CSR. In the literature of corporate social responsibility, different authors have tried to analyze the historical evolution of the concept. As such, several interpretations and concepts relevant to the field as revealed.

Joyner and Payne (2002) stated that Chester Barnard in 1938 was the first author who identified the concept of social responsibility in companies. Barnard pointed out the significance of the external environment and its impact on the decision-making processes of which a manager should be responsible. Specifically, Barnard said that the leaders are the ones who should consider the decisions he makes in order to bring success to the company.

Additionally, Joyner and Payne also highlighted the work of Herbert Simon who stated that all organizations have a responsibility towards their community. Simon stated that firms should consider public interest when making decisions about the company.

In the late nineteenth century, some organizations raised concerns on the welfare of their employees and the impact of the organization to society. This is at the same time of the emergence of the labor movement as well as the onset of slums due to the industrial revolution. In this context, business started to offer social welfare on a limited scale together with the construction of hospitals and bath houses all over the country and to some extent the provision of food. Simultaneously, individual business philanthropists also became active in the country such as John D. Rockefeller. Even though philanthropy was not established at that time, the community as well as social groups acknowledged the activities of the philanthropists.

There were some terms in the literature at that time that can be related to corporate social responsibility: corporate social performance, corporate social policy, and corporate social integrity. Since the concept of CSR has constantly been evolving, these terms were considered as the early development of CSR. The concept of CSR emerged in the 1950s especially in the United States where there were many studies exploring the problems of the relationship of business and society. Bowen (1953) defined CSR as “an
obligation to pursue policies to make decisions and to follow lines of action which are compatible with the objectives and values of society”. Bowen (1953) coined the term social responsibility and explained that it is the duties of business owners to pursue policies, to enact decisions, or to follow a principled-based leadership in line with the values of the society.

During the 1960s, corporate social responsibility was still perceived as social responsibility of business owners. According to McGuire (1963), “the idea of social responsibility supposes that the corporation has not only legal obligations, but also certain responsibilities to society which extend beyond these obligations”. Davis (1960) stated that business decisions that are considered socially responsible could be justified by the economic returns of such decision. As such, many organizations would make decisions associated to social responsibility because they would see it as an investment.

During the early 1970s, Johnson (1971) provided another theory associated with CSR that is stakeholder theory. Rather than only striving for economic returns for the shareholder of the organizations, they should also take into consideration the interest of the stakeholders such as the employees, suppliers, manufacturers, consumers, local community, and the country (Johnson, 1971). Friedman also stated that the economic sphere is the sole responsibility of the corporations and that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970).

In the late 1970s, Carroll (1979) produced the first model of CSR. The concept of corporate social responsibility can be explained in four responsibilities: economic, legal, ethical, and philanthropic (Carroll, 1979).

Carrol (1979), who provides one of the widely used definitions of CSR, defines it as “the social responsibility of businesses which encompasses the economic, legal, ethical and discretionary expectations that society has of organizations”. She was one of the earliest authors that created a CSR model, which was usually referred to as Carrol’s Pyramid (See Figure 1). In the philanthropic responsibilities aspect, the aim is to be a good corporate citizen. The individual or the company should contribute to the resources to the community and to improve the quality of life. In the ethical responsibilities aspect, the aim is to be ethical. The individual or organization has the obligation to do what is right, just and fair. In addition, the individual or organization should also avoid harming others. In the legal responsibilities aspect, the aim is to obey the law. The belief is that law is the codification of right and wrong in a society. The individual or organization should play by the rules of the game. In the economic responsibilities aspect, the aim is to be profitable. The individual or organization should view this responsibility as the foundation upon which all others rest.

In the 1980s, business ethics began to emerge as well as stakeholder theory. In the beginning of the 21st century, sustainable development, corporate reputation, and corporate sustainability also came along. Wartick and Cochran (1985) provided a three-dimensional approach to CSR. The two authors defined it “the underlying interaction among the principles of social responsibility, the process of social responsiveness, and the policies developed to address social issues”. Corporate social responsibility should also take into consideration the policies, principles, and processes in the organizations (Wartick & Cochran, 1985).

In the 1990s, Wood (1991) provided an institutional framework of CSR. Wood also stated that the model of Wartick and Cochran provided further understanding about CSR; however, the model still left many unanswered queries about the theory of CSR. Wood defined CSR as: “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships”. This definition of Wood overcomes the problems that were not covered in the definition of Wartick and Cochran, especially in the issue that the Wartick and Cochran’s definition was too restrictive while social responsibility should have no restrictions. The four types of responsibilities derived from Carroll’s model were linked to three levels of institution namely: legal, organizational, and individual (Wood, 1991).

Waddock and Graves (1997) studied about CSR and financial performance. The two authors provided a definition of the CSP model: “CSP is a multidimensional construct, with behaviors ranging across a wide variety of inputs (e.g., investments in pollution control equipment or other environmental strategies), internal behaviors or processes (e.g., treatment of women and minorities, nature of product produced, relationship with customers), and outputs (e.g., community relations and philanthropic programs)” (Waddock & Graves, 1997).

McWilliams and Siegel (2000) defined CSR as “actions that appear to further some social good, beyond the interest of the company and that which is required by law.”

In the 21st century, studies focused on the implementation of CSR initiatives as well as conducting empirical case studies on the impact of CSR to the organization and the stakeholders. In the early 2000s, Carroll’s Pyramid has been reduced to three domains: economic, legal, and ethical (Schwartz & Carroll, 2003). European Commission (2011) streamlined the definition of CSR as “the responsibility of enterprises for their impacts on society, which indicates that enterprises should have a process in place to integrate CSR agenda into their operations and core strategies in close corporation with stakeholders”. CSR is seen as process to integrate ethical, social, environmental, human rights and consumer concerns into the operations and core plan of the business together with the stakeholders. Table 1 summarizes the major development of CSR concepts (See Appendix A).

Different studies have assessed the variations in the conceptualization of CSR in America and Europe (Brown, 1997). The perception of CSR, including social
performance, has been imbued with traditional features like American individualism, democratic pluralism, moralism, and utilitarianism. People should not overlook that the rise of capitalism was accompanied by more than a war in Europe, the spread of socialism, the nationalization of various organizations, and the grip of the country on different social affairs. European researchers did not pay significant attention to the theoretical discussion of CSR in the early twentieth century (Collis & Hussey, 2009). It was the state that was concerned with social protection during that period, and companies did not want to take on such a role until the end of the seventies, with the decline of socialism in Europe and the emergence of the phenomena of modern liberalism and globalization. It was at this time that the concepts of corporate citizenship and ethical business began to grow. Some authors have reported that Europe, similar to the United States, took paternalistic actions in the middle of the nineteenth and early twentieth centuries. For example, the industrial stove company Godin, built houses for workers and set up a relief fund for retirement and sickness in 1846. Similarly, within the footwear industry, the Bata Company constructed Bataville in 1937 for city workers (Bournois & Bourion, 2008). However, this movement did not entail paternalism on a large scale.

**Competitive Advantage Strategy and Theory Development:**

Competitive advantage is a strategy that has been used in organizations to sustain itself amidst competition (Miles & Snow, 1986; Porter, 1980). It is gain when the organization performs better than the rivals in a similar industry do. In order for this to happen, the organization must possess an advantage compared to their competitors. Two of the more traditional approaches to competitive advantage are Miles and Snow’s (1986) adaptive strategies, and Porter’s (1980) generic competitive strategies. These two approaches will be discussed briefly to support the problem statement that was articulated in the earlier section.

Miles and Snow’s (1986) adaptive strategies focus on strategies to address the uncertainty of competition. These business uncertainties are often entrepreneurial, operational, or administrative in nature. Four strategic stances have been identified by Miles and Snow to address these business problems: (a) prospector, (b) defender, (c) analyzer, and (d) reactor. Each of these strategic postures or stances will be briefly described.

According to Miles and Snow (1986), a prospector stance involves the pursuit of innovation and developing new ideas to adapt to the changes in the environment. A defender stance involves protecting the status quo by strengthening stability and the existing practices. An analyzer stance involves analyzing a particular strategy that has already been used by another competitor, and deciding whether that same strategy will be applicable in the organization. Finally, a reactor stance involves making strategic plan only when the need arises. All of these adaptive strategies underscore the importance of having a strategic stance in order to cope with the changing business landscape (Miles & Snow, 1986).

According to Porter (1980), an organization will have competitive advantage if it reports above average profit in the industry and can maintain its performance in a long-term perspective. Porter’s (1980) generic competitive strategies operate under two dimensions: (a) strategic scope and (b) strategic strength. Strategic scope involves the size of the target market, whereas strategic strength refers to the supply side and at the strength of competencies of the firm. The strategic strength dimension involves two key principles. The first principle is that competitive advantage is gained by having the lowest cost in the industry. The second principle is that competitive advantage is gained when one company has desirable qualities that are not present in their companies. The second principle of competitive advantage formed the basis for strategies such as cost leadership strategy, differentiation strategy, and focus strategy.

Jones (2000) stated that there are two broad sources of competitive advantage: the hard factors (physical facilities, type of technology, etc.) and the soft factors (organizational culture, worker-manager relationship and experience, etc.). Meehan, Meehan, and Richards (2006) stated that CRS can be incorporated in the strategic processes of the organization and can be a source of competitive advantage.

Researchers have explored whether CSR and sustainable competitive advantage are compatible. Quairel-Lanoizelée’s (2011) study stated that corporate social responsibility (CSR) academic literature, especially stakeholder theory, pays little attention to competition and market pressure. The author explored the connection between CSR and competition in order to contribute to the CSR concept and to explain in detail the competitive advantage of companies implementing CSR. The author draws upon existing academic literature in economics and strategic management, on mainstream CSR papers and on the official disclosure and communication from companies listed on the “CAC 40” of the French stock market. There were three major findings in the study. First, there is a large gap between the economic view and the CSR view of competition. Second, it was revealed that there are limits on the competitive advantage obtained through CSR initiatives. Furthermore, CSR initiatives and competitive advantage have a weak association for stakeholder’s demand for virtue, whereas, the two have a strong association with the expectations of the stakeholder for responsible practices. Lastly, the author also found out that CSR competitive advantage is gained only and might be limitable (Quairel-Lanoizelée, 2011).

CSR actions can lead to the change of attitudes among consumers to the products and the organizations. Organizations are publicizing and advertising their CSR initiatives in order to achieve competitiveness. The stakes are greater in financial institutions because the clients of these institutions have a higher involvement than consumers who are buying products from an organization (Matule-Vallejo, Bravo, & Pina, 2011).

The strategy of competitive advantage is crucial to the theory development of this study, specifically with regard to the use CSR as an organizational strategic choice of organizational leaders. One of the main reasons organizational leaders choose to use CSR is to gain competitive advantage (Duarte, 2010; Ployhart, 2011). The use of CSR is particularly useful in gaining competitive advantages.
advantage over other financial firms, underscoring how CSR can be used as a tool to improve the performance of financial institutions (Chih, Chih, & Chen, 2010).

Social responsibility has become a strong and permanent part of corporate actions. When CSR initiatives are managed then they could produce significant benefits in terms of reputation as well as economic returns. CSR is fundamental in improving the performance of a firm and positioning it strategically in the highly competitive business environment (Duarte, 2010). CSR strategies can create competitive advantages if they are used efficiently and appropriately. Researchers have pointed out positive association between strategic social responsibility and competitive advantage (McWilliams & Siegel, 2010; Saunders, 2006; Windsor, 2001). One important competitive advantage gained through CSR is positive public perception (Collis & Hussey, 2009). Moreover, CSR can also increase the perception about presence of satisfied staff members, content consumers, and lower costs (Collis & Hussey, 2009).

CSR initiatives can also be helpful to a company when they want to gain competitive edge against the market leader. Du, Bhattacharya, and Sen (2011) investigated the real-world CSR initiative and showed that the challenger in a competitive situation could reap superior business returns by using CSR initiatives. The results of the study showed that consumers demonstrated the desired attitudinal and behavioral changes in favor of the challenger, who chose to implement CSR strategies and initiatives, regardless of the affective trust in the leader. Consumers reacted less favorably as their affective trust in the leader increases. Moreover, the authors also found out that consumers formed a trust-bond with the challenger as opposed to the market leader in the industry.

CSR initiatives can also provide benefits to the organization through its employees, which could also lead to improved performance that would also result to having a competitive advantage. Filho, Wanderley, Gomez, and Farache (2010) asserted that corporate social responsibility strategies and competitive advantage are import issues. The authors focused on the relationship among CSR initiatives, competitive advantage, and employees. They presented a theoretical review that demonstrated the association between social strategy and competitive advantage such as attracting valuable employees in order to improve the company image and reputation.

This was the same findings of Melo and Galan’s (2011) study about the impact of corporate social responsibility (CSR) on brand value. The two authors conducted their study with the sample of a select group of US corporations with the best global brands. The authors confirm that CSR is a valid source of intangible competitive advantage. However, Melo and Galan noted that CSR is not being used to its full potential given the fact that CSR initiatives has a lesser impact on business performance than the size of the company and other financial indicators. The authors believed that this is because of the non-alignment of CSR initiatives with the corporate strategy.

Calabrese, Costa, Menichini, Rosati, and Sanfelice (2013) stated that implementing CSR for competitiveness enhancement would require a radical change in the leadership thinking and would have to have new tools in order to support business activities aligned with CSR initiatives. Furthermore, there is a lack of suitable measures in detecting the stage of a company when it comes to CSR cultural development, which hinders the identification and utilization of CRS-related business opportunities. The authors proposed a two-dimensional CSR model in supporting managers in their pursuit for long-term competitiveness, thus turning CSR-related business opportunities into business advantages for the organization. The model is based on two dimensions: CRS development and CSR commitment. The CSR development involves the decision-makers in their plan to position the company with respect to the stage of their CSR cultural evolution. The CSR commitment dimension involves the assessment of the degree of commitment of the company on their economic, legal, ethical, and philanthropic CSR performance based on Carroll’s pyramid. Through using this two-dimensional model, companies can describe the actual stage of the CSR cultural development and CSR commitment. The authors developed the model to be employed in the banking sector (Calabrese, Costa, Menichini, Rosati, & Sanfelice, 2013).

According to Clemens, Gan, and Zhang (2010), one of the reasons why clients switch between banks in a competitive environment is because of the reputation of the bank created by the customers. When a bank has a good reputation, it has a positive image among its customers. The authors also stated that CSR activities have also an impact in the image of the bank to its customers. When customers talk to each other, it could also lead to corporate success (Clemens, Gan, & Zhang, 2010). Due to CSR activities, banks have a positive image, which can then lead to competitive advantage. As such, it is important for bank leaders to understand how their social program is likely to influence the perceptions of their clients about their CSR activities in order to have a meaningful and positive impact to their reputation (Clemens, Gan, & Zhang, 2010).

The literature found support for the use of CSR as a way to boost or improve an organization’s competitive advantage (Du, Bhattacharya, & Sen, 2011; Filho, Wanderley, Gómez, & Farache, 2010; Liu, Hongli, & Fenglan, 2010; Luo & Bhattacharya, 2009; McWilliams & Siegel, 2010; Melo & Galan, 2011; Quairel- Lanoizéléé, 2011). For instance, Du et al. (2011) examined CSR and competitive advantage and they found that businesses that had consumers participated in their CSR initiative demonstrated improved customer attitudes and behaviors regarding the business. Kitzmueller and Shimshack (2012) reviewed existing literature on CSR and found out that there is consistent empirical evidence in favor of CSR mechanisms related to consumer markets, private politics, and public politics. Lee et al. (2013) also found CSR improves the perception of employees about the organization, which leads to improved performance and attachment of the employees. The next section involves a discussion of the CSR in financial banking institutions in general and in some countries.
**Corporate Social Responsibility in Financial Banking Institutions:**

In the previous years, financial banking institutions have maintained a negative reputation due to their irresponsible behaviors and their selfish methods. As such, some financial bank leaders have focused on how CSR can help them to regain a positive public image. CSR in financial banking institutions has been integrated in their business strategic plans (Pérez & del Bosque, 2012). Continued sustainability of financial institutions has implications in the adoption of CSR (Weber, Diaz, & Schwegler, 2012).

Scholten's (2009) provided a framework to assess corporate social responsibility with international banks. The author noted that rating institutions do not provide a clear process on how the rating of a bank was achieved. The author applied the framework to more than 30 institutions and find significant differences among individual banks, countries, and regions. Perez, Martinez, and del Bosque (2013) stated that research on CSR has increased. The authors proposed a new scale based on stakeholder theory to evaluate customers’ perception regarding the CSR performance of their banking service providers (Pérez, Martínez, & Bosque, 2013). The findings revealed that CSR includes all corporate responsibilities toward customers, shareholders, employees, and society. However, the authors noted that different banks have different kinds of CSR images that reveal different strategic approaches to CSR (Pérez, Martínez, & Bosque, 2013).

In the United Kingdom, the sustainability concerns have influenced the stakeholders to reshape the banking sector. In the past decade in the United Kingdom, a number of CSR efforts have been initiated by the government and bank organizations. In 2002, the Financial Services sector published a document containing the guidelines on CSR management and reporting. The main features of CSR concept in the banking sector of the United Kingdom is a modified version of Carroll’s pyramid (See Figure 3 and Figure 4). Rather than the four aspects (philanthropic, ethical, legal, and economic) having equal parts in the pyramid, the legal aspect has a larger part (Riabichenko, 2013).

![Figure 1. Original Carol’s four-part pyramid. Models for corporate responsibility. Adapted from “Corporate Social Responsibility in Banks: An International Overview,” by D. A. Riabichenko, 2013, Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy.](image)

![Figure 2. CSR concept of banks in UK. The essential components in the UK’ banking sector. Adapted from “Corporate Social Responsibility in Banks: An International Overview,” by D. A. Riabichenko, 2013, Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy.](image)
In Japan, CSR is a trend in the business society. Companies have set up CSR departments as well as published CSR reports since the early 2000s. In Japan, banks perceive CSR as a relationship between the company and the society as can be seen in Figure 5.

After the first wave of CSR in the United States, more business owners began to treat philanthropic activities in a pragmatic sense. The government also feared that banks no longer take care of the community, where their clientele resides. As such, the Congress adopted the **Community Reinvestment Act**. This act encourages bank institutions to help meet the needs of communities especially if they operate in low and moderate-income neighborhoods. In Figure 6, one will see the philanthropic investments of banks in the United States in 2011.

Financial institutions in the United States focused on the community interests rather than the interest of the major stakeholders. The American model of CSR is clearly seen in Figure 6 as philanthropic activities are used are tools for implementation of policies. In the United States, there are no penalties for a lack of societal component in the business strategies. However, corporations including banking institutions are seeking to implement CSR practices due to

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![Diagram](image_url)

*Figure 2. British banking system view of CSR. Legal aspects have a larger role in the UK. Adapted from “Corporate Social Responsibility in Banks: An International Overview,” by D. A. Riabichenko, 2013, Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy.*

*Figure 3. CSR models in Japanese banks. Banks are seen as a relationship between company and society. Adapted from “Corporate Social Responsibility in Banks: An International Overview,” by D. A. Riabichenko, 2013, Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy.*

*Figure 6. Philanthropic investments of US banks in 2011. Charity and philanthropy are two guiding forces to support the community. Adapted from “Corporate Social Responsibility in Banks: An International Overview,” by D. A. Riabichenko, 2013, Ukrainian Academy of Banking of the National Bank of Ukraine, Sumy.*
the information transparency in the United States. If the CSR practices of the banks are positive then it would have a positive effect on the reputation of the bank and the clients as well as potential clients will recognize the efforts being made by the bank.

As corporations are making profits, they should also be sensitive to the needs of the communities and society in which they operate. At the same time, the products and services of the corporate should also not bring negative impact on people and the world. Banks are of the major stakeholders in the finance sector. They are one of the major industries in the world. Banks can have a wider and broader socio-economic impact in society through their financial services and products.

Birindelli, Ferretti, Intonti, and Iannuzzi (2013) aimed to construct a multidimensional ethical rating model, based on many items that represent the most significant Corporate Social Responsibility drivers of the banks. The authors wanted to identify reasons banks engage in CSR activities. The items in the rating model was drawn from literature and from corporate reporting and websites of banks and then subjected to content analysis. The ethical rating model, which was applied to a sample of European banks, was divided into four areas of analysis (Disclosure; Organization and Management; Offer of Socially Responsible Instruments; International Agreements, Certifications and Indexes). The results indicated that banks pay more attention to the offer of socially responsible instruments and organization and management issues (Birindelli, Ferretti, Intonti, & Iannuzz, 2013).

Dincer, Celik, Yilmaz, and Hacioglu (2014) analyzed corporate social responsibility activities of deposit banks operate in Istanbul Stock Exchange based on various financial indicators. The authors wanted to identify the importance banks place on institutionalization in their promotions and its consequences. The results indicated that banks that do not place importance on promotional activities have lower profit margins, whereas those that only make effort for advertising and public relations hardly compensate their expenses; the highest profit margin is achieved by banks that co-ordinately use both promotional methods.

Simpson and Kohers (2002) investigated the relationship between corporate social and financial performance in the banking industry. The authors conducted an empirical analysis of a sample of banks and the use of Community Reinvestment Act ratings as a social performance measure.

The results of the study indicated a positive link between financial performance of a bank and CSR (Simpson & Kohers, 2002). On the other hand, one study found no association between financial performance and CSR. Soana (2011) stated that there have been many studies about the corporate social responsibility (CSR) and its costs and benefits. The author examined the ways CSP can be proxied and investigates the possible relationship between CSP (measured by ethical rating) and CFP (measured by market and accounting ratios) in the banking sector using correlation methodology (Soana, 2011). The results indicated that there is no statistically significant link between CSP and CFP (Soana, 2011).

Decker and Sale (2010) used Carroll’s (1991) four part model of CSR and evidence from a small interview survey and desk study of documented interviews, CSR reports and other representations from bankers, the chapter explores bankers’ understanding of and approach to CSR in a global environment and in a variety of contexts. The authors hypothesized that trust, reputational and regulatory risks are of particular concerns in bankers’ efforts to engage with CSR. The authors concluded that bankers must look beyond their functional role in the society in order to engage meaningfully in CSR initiatives (Decker & Sale, 2010).

Khan, Halabi, and Samy (2009) examined corporate social responsibility (CSR) reporting by banks in the developing economy of Bangladesh. The authors collected two types of data: (1) annual reports of 20 selected banking companies, which are listed in Dhaka Stock Exchange (DSE) and (2) a survey questionnaire, which was used to investigate the level of users' understanding and their perception of CSR reporting. There were two major findings of the study. First, the results indicated that selected banking companies did some (albeit little) CSR reporting on a voluntary basis. Second, user groups are in favor of CSR reporting, and would like to see more disclosure. The authors further noted that the current disclosures made by the banks that participated in the study are not sufficient at all to measure the social responsiveness of the organizations (Khan, Halabi, & Samy, 2009). Khan (Khan H.- U.- Z., 2010) conducted a similar study and investigated the corporate social responsibility (CSR) reporting information of Bangladeshi listed commercial banks and explores the potential effects of corporate governance (CG) elements on CSR disclosures. The results were almost similar. The author found out that overall CSR reporting by Bangladeshi PCB are rather moderate, however, the varieties of CSR items are impressive.

Overall mean CSR disclosure index of one Islamic bank out of seven to be above average and the issues of CSR are not of major concern for most Islamic banks(Hassan & Harahap, 2010). A research explored whether any discrepancy exists between the corporate social activities disclosed in the annual reports of Islamic banks and the corporate social responsibility (CSR) disclosure index that has been developed based on the Islamic business ethics framework. The authors used the annual reports of seven Islamic banks using the method of content analysis to measure the volume of CSR disclosure. The results concluded that CSR is still not a prevalent issue for a majority of Islamic banks.

Some researchers examined the link between CSR and whether an individual would pay their debts to the bank. Goss and Roberts (2011) examined the link between corporate social responsibility (CSR) and bank debt using a sample of 3996 loans to US firms. The results showed that firms with social responsibility concerns pay between 7 and 18 basis points more than firms that are more responsible. Furthermore, the authors also found out that low-quality borrowers that engage in discretionary CSR spending face
higher loan spreads and shorter maturities, but lenders are indifferent to CSR investments by high-quality borrowers.

CSR tend to be higher in countries where there is strong legal enforcement. This was seen in Chih et al. (2010)’s study, which also examined the determinants of corporate social responsibility in the financial industry using data from 520 financial institutions in 34 different countries. The results of the survey-based study indicated that larger financial institutions tend to have higher levels of CSR. However, self-regulation appears to be more significantly influential in encouraging CSR among financial institutions.

Studies have stated that if an institution has CSR initiatives then it would be more likely to be successful than an institution without CSR initiatives. Kulkarni (2013) analyzed CSR activities of 19 public and private sector banks during three financial years in India. The author will also highlight the social issues focused by banks, strategies adopted to implement CSR and social development, involvement of staff, sustainability of such activities etc. The author asserted that CSR implementation is crucial in order to be successful in the banking industry (Kulkarni, 2013).

CSR also has a link towards the economy of a country. Chaudhury, Das, and Sahoo (2012) emphasized the importance of the contribution of financial institutions including banks as well as the role of banks in terms of economic and developmental activities. The authors have highlighted the CSR practices in Indian banking and financial institutions using 12 banking and financial institutions selected under stratified random sampling method with duration of 2007 to 2010. The authors concluded that all the financial and banking institutions of the country are directly engaged in social banking and developing banking approach. Furthermore, the authors also concluded that the financial and banking institutions of the country that participated in the study reported benefits of implementing CSR initiatives. Weber et al. (2012) examined the CSR and sustainability practices of 1800 firms wherein 400 of which were financial institutions. The results of the analysis showed that the financial sector is generally weak in practicing CSR, contrary to the perceived preponderance of CSR among financial institutions (Pérez & del Bosque, 2012). Weber at al. also found identified business ethics and product responsibility as the weaknesses of CSR, whereas community relations were the strengths.

Some studies evaluate how institutions report their CSR activities. Evangelinos, Skouloudis, Nikolaou, and Filho (2010) examined implementation of CSR in the banking sector by means of an analysis of the incorporation of environmental and social concerns into financial institutions’ decision-making, in order to evaluate the content of annual environmental (social or sustainability) reports published by Greek banks. The authors also analyzed the various reporting strategies Greek banks adopt, as well as the emerging trends they tend to follow. The results of the study indicated that Greek banks finished in exactly the same position in the overall ranking with both scoring systems (Evangelinos, Skouloudis, Nikolaou, & Filho, 2010).

CSR practices are different in different countries. Hu and Scholtens (2012) examined CSR policies in 402 banks in 44 different developing countries. Examining the different characteristics of the financial banking institutions, the results of the quantitative descriptive study showed that the extent of CSR practices is different. The findings indicated a positive relationship between CSR policies and total assets and return on assets. Finally, openness was negative related to CSR policies, which means that higher levels of openness is associated with low CSR policies.

Wu and Shen (2013) investigated the association between corporate social responsibility (CSR) and financial performance (FP), and discuss the driving motives of banks to engage in CSR. The authors found three motives including strategic choices, altruism, and greenwashing that would suggest that the relationship between CSR and FP is positive, non-negative, and non-existent. The authors used data from the Ethical Investment Research Service (EIRIS) databank and Bankscope database covering the years 2003 to 2009. The results show that CSR is positively associated with financial performance in terms of returns on equity, returns on assets, net-interest income, and non-interest income while CSR was a negatively associated with on-performing loans. Thus, strategic choice is the primary motive of banks to engage in CSR activities (Wu & Shen, 2013).

An earlier study also explored the motives of bank to implement CSR activities. Lin, Yang, and Liou (2009) examined 1000 Taiwanese cases in which firms include their R&D expenditures as one of their business strategies for sustainable development; they also identify their charitable expenditures as contributions to CSR. The authors found a positive correlation between CSR and financial performance. Moreover, the authors also found out that CSR does not have a positive impact on short-term financial performance but it has a remarkable long-term fiscal advantage (Lin, Yang, & Liou, 2009).

Jizi, Salama, Dixon, Stratling (2013) examined the impact of corporate governance, with particular reference to the role of board of directors, on the quality of CSR disclosure in US listed banks’ annual reports after the US sub-prime mortgage crisis. The authors utilized a sample of large US commercial banks for the period 2009–2011 and controlling for audit committee characteristics, board meeting frequency, and banks’ profitability, size and risk, we find evidence that board independence and board size, the two board characteristics usually associated with the protection of shareholder interests, are positively related to CSR disclosure. The findings indicated that CEO duality also impacts positively on CSR disclosure (Jizi, Salama, Dixon, & Stratling, 2013).

Problems in the implementation and management of CSR can lead to failure of the program (Chih et al., 2010). There is still no clear evidence on how factors such as regulations, external pressure, and the anticipated economic benefits of CSR are influential in the success or failure of CSR (Weber et al., 2012). Despite these gaps in research, there is still a widespread recognition that CSR can be beneficial to financial institutions (Pérez & del Bosque, 2012).
Corporate Social Responsibility in Relation to Customer Loyalty:

One of the organization’s most relevant stakeholders is its customers or clients. Consumers appraise corporations also as merchandise in terms of CSR, whereby negative CSR associations are more helpful and have a more damaging effect than positive ones. However, positive associations do boost company and product evaluations. Thus, customers reward organizations with greater loyalty as well as high levels of willingness to pay.

Contrary to studies about CSR and the financial performance of an organization, there is much less research on how customers respond the CSR programs of an organization. The influence of CSR on consumers’ purchase intentions is also complicated than previous studies would say so, therein CSR will have an effect on purchase intentions directly or indirectly. Previous studies have showed that customers become more loyal and have higher willingness to pay towards companies and organizations that they consider to be socially responsible (Martin, Ponder, & Lueg, 2009; Raghunib, Roberts, Lemon, & Winer; Talukdar, Gauri, & Grewal, 2010). However, some studies also noted that consumers respond negatively to unethical behavior more strongly than they respond positively to ethical behavior (Luo & Bhattacharya, 2009; Sun & Morwitz, 2010; Trudel & Cotte, 2009).

Saunders (2006) found out that the percentage of clients who are more likely to recommend a brand that supports a good cause over companies that do not support a good cause. Corporations that have created CSR a central part of their businesses are reaping the advantages in terms of company sustainability, reducing liabilities, and insurance prices, also as improved their brand image (Saunders, 2006).

Zhang (2009) examined the influence of corporate reputation on consumer loyalty based on PLS-SEM model in China. The findings showed that affective component (Likeability) of corporate reputation exerts greater and more significant influence on the establishment of customer loyalty than the cognitive component (competency) does. In addition, performance and corporate social responsibility (CSR) were identified to be the two most important drivers in influencing corporate reputation and also in driving customer loyalty (Zhang, 2009).

Vlachos, Tsamakos, Vrechopoulos, and Avramidis (2009) investigated whether consumers’ perceptions of motives influence their evaluation of corporate social responsibility (CSR) efforts. The results of the study show that consumer trust is the mediating role in CSR evaluation reports. As such, managers should monitor consumer trust. Consumer trust is an important factor that regulates the effect of consumer attributions on patronage and recommendation intentions (Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009; Castaldo, Perrini, Misani, & Tencati, 2009).

Rahman and Rashid (2014) explored to which extent corporate image and thus customer loyalty could be achieved through the implementation of strategic corporate social responsibility (CSR) initiatives. The authors introduced three pertinent areas of CSR that have been determined: environment, community, and customer. The study provided support for the positive association of consumer loyalty and CSR initiatives (Rahman & Rashid, 2014).

Lacey and Kennett-Hensel (2010) assessed how CSR performance impacts customer relationships over time. The authors collected data from 469 customers of the 2007–2008 NBA season. The results showed that a firm that engages in CSR initiatives may reap its rewards by developing trusting and committed customer relationships which, in turn, help forge desirable customer behaviors. Furthermore, the results showed how the influence of CSR activities strengthens over time and over the course of the business cycle.

Perez and del Bosque (2014) proposed a hierarchy of effects model to study how customer perceptions of the social responsibility of companies influence customer affective and conative responses in a service context. The authors tested a structural equation model using information collected directly from 1,124 customers of banking services in Spain. The results indicated that CSR image influences customer identification with the company. The emotions involved would be satisfaction. Identification also influences the emotions produced by the service performance and customer satisfaction determines loyalty behavior. The authors also stated that there are two paths to explain customer satisfaction and customer loyalty. The first path would involve the emotions produced by the company at the institutional level. The second path would be about the thoughts, attitudes, emotions, and feelings produced by the products and services of the company.

Songsom (2013) also proposed a conceptual model in order to understand how CSR affects customer loyalty. The results of the structural equation model demonstrated CSR activities are an exogenous variable, which has direct effect to endogenous variables, include corporate image, perceived service quality, customer satisfaction, brand affect and customer trust. In addition, the author found out that CSR activities have an indirect effect on behavioral loyalty meanwhile attitudinal loyalty is a mediator (Songsom, 2013).

Mandhachitara and Poolthong (2011) examined the roles of CSR and the perceived service quality of customers in determining the loyalty of customers in the banking sector in Bangkok, Thailand using the responses of 275 bank customers who answered a survey questionnaire. The results revealed that CSR has a strong positive association with attitudinal loyalty while perceived service quality mediated the relationship between CSR and repeat patronage intentions (behavioral loyalty).

Today, companies recognize that CSR is inextricably coupled to their name and brand identity (Hughes & Ahearne, 2010). The consumers’ impression of a corporation are divided into 2 broad classes, brand equity and brand performance. Brand equity refers to the perception shoppers have about the organization on top of and on the far side those that are narrowly mirrored via product quality and company performance (Hughes & Ahearne, 2010). On the
other hand, brand performance is about the contribution of the brand towards the overall business performance (Hughes & Ahearne, 2010). Hughes and Ahearne relate brand performance to the measurable outcomes of the activities and products of the organizations.

Arendt and Brettel (2010) examined the effects of corporate social responsibility (CSR) on corporate identity, image and firm performance in a multi-industry setting, in order to support evidence that the effects of CSR differ in different industry settings. 389 European companies participated in the study. The results showed that CSR triggers the corporate-image-building process and that its relationship to company success varies significantly based on company size, industry and marketing budget.

To win loyalty in today's markets, firms have to specialize in building and maintaining client loyalty and CSR has become a useful method. However, the link between CSR and client loyalty remains mostly unknown. CSR may have an effect on the worth of a company's brand. Intense competition has in several markets attenuated the prospects for differentiation in terms of technology and product/service quality. For this reason, CSR is a vital attribute that may enhance the image of a company. Liu and Zhou (2009) stated that the effect of CSR on loyalty exists, but that the effect is not all direct, CSR works through improving corporate image and trust.

Several cross-sectional studies spanning firms across different industries have correlated CSR performance with financial performance (Pava & Krausz, 2013). The correlation is often positive, but there are also several negative and insignificant effects. Add to these mixed results the ambiguous direction of causality; the inconsistency among studies with respect to which CSR dimensions do and do not generate positive returns; and the fact that different stakeholder groups respond differently, and it becomes clear that we do not really know much about whether, in what manner, and how greatly CSR benefits a company (Cornelissen, 2003).

Asatryan (2013) investigated the relationship between CSR and customer loyalty in the Central and Eastern European (CEE) airline market. The results show that customers of airlines tend to be concerned with airline CSR initiatives although they perceive them to be less than satisfactory. In addition, the author found that airline CSR has a marginally significant and positive association with behavioral and attitudinal loyalty. The author also found out that CSR initiatives could enhance customer loyalty with airline CSR having a marginally significant influence on behavioral and attitudinal loyalty.

van den Berg and Lidfors (2012) examined the impact of perceived CSR activities on consumer loyalty on the Swedish chocolate industry. In order to this, the authors employed a quantitative approach with a cross-sectional design. The results of the study confirmed the positive relationship between perceived CSR activities and consumer loyalty on the Swedish chocolate industry.

In a similar study, Liu et al. (2010) conducted a study on perceived CSR and customer loyalty based on dairy market in China. The results from the regression analysis revealed that product quality, trust, image and customer satisfaction have a positive influence on customer loyalty. However, the results did not reveal any significant direct correlation between CSR and customer loyalty. The authors, nevertheless, concluded that perceived CSR might have an indirect impact on customer loyalty (Liu, Hongli, & Fenglan, 2010). Chung, Yu, Choi and Shin (2014) explored how CSR factors influence customer satisfaction and loyalty and whether the moderating effects of corporate image in the relationships between CSR and customer satisfaction and customer loyalty are or not. This study employed structural equation modeling (SEM) to test the hypotheses. The findings revealed that CSR positively affects customer satisfaction and loyalty, and customer satisfaction positively affects customer loyalty. Furthermore, the authors also listed down the importance of CSR factors: consumer protection, philanthropic responsibility, legal responsibility, ethical responsibility, economic responsibility, and environmental contribution.

There are four dimensions of CSR performance - environmental friendliness, treating employees fairly, community support, and sourcing from local growers and suppliers - that positively influence consumers' attitudes toward a retailer. However, consumers seem to modify their purchase behavior only when the CSR domain directly affects their actual experience with the company or brand. In context, broad initiatives like environmental friendliness and community support not only build goodwill, but also lead to initiatives like offering locally sourced products and fair employee compensation - actions related directly to the products and people that consumers face, bringing both goodwill and a higher profit from consumers (Cornelissen, 2003).

Second, this economic return is significant and meaningful. For instance, if a retailer is able to improve consumers' perceptions of its fair treatment of employees by one point on a five-point scale, the consequent increase in profit from consumers is approximately 1.7 percentage points. The gain from a similar improvement in local sourcing is even more pronounced, at more than two percentage points. These numbers represent a sales lift of 10% to 15% for the average retailer in this study (Cornelissen, 2003).

Third, if a retailer chooses to leverage its improved CSR perception into higher prices rather than a higher expenditure by consumers, the calculations from the model show that a one-unit increase in employee fairness perceptions translates to a price premium of about 12%, and a similar increase in local product sourcing translates to a price premium of about 16% (Birth, 2008).

Fourth, consumers patronize the company because they see personal benefits from the CSR initiatives and because the initiatives resonate with their own values. However, an indirect benefit can occur through consumers' perceptions of how logical the company's prices are. Consumers do not simply respond to the price charged, they also respond to how logical they think the company’s prices are. High prices
are considered fairer if they can be attributed to "good" motives, like CSR efforts or costs, rather than to “bad” motives like profit taking. Like the direct effect, this indirect benefit is not equal across different CSR initiatives. There is no indirect benefit to local product sourcing - indeed, price fairness perceptions are not better for companies that offer locally produced products (Cornelissen, 2003).

A study explored the relationship between Corporate Social Responsibility (CSR), financial performance and risk at U.S. banks from 1998-2010. There were three significant results from this study. First, there is a positive association between CSR and both operating performance and firm value. Second, there is a negative relationship between the risk-taking aspect of the bank and the CSR environment of the bank, which are central to the bank’s operating activities. Lastly, the risk-taking aspect of the bank and the CSR environment of the bank were negatively associated to whether or not the bank received assistance through TARP during 2008-2009. The results revealed that improving the quality of banks might benefit more than individual performances of the banks as well as reducing the risk of another financial crisis.

Based from the existing literature, it is inconclusive to say whether corporate social responsibility and consumer loyalty are positively associated. Some studies state that there is a positive relationship between the two while other studies are stating that there is a negative relationship (Chung, Yu, Choi, & Shin, 2014; Liu, Hongli, & Fenglan, 2010; Mandhachitara & Poothong, 2011; Martin, Ponder, & Lueg, 2009; Matule-Vallejo, Bravo, & Pina, 2011; van den Berg & Lidfors, 2012). In the next section, corporate social responsibility and brand trust will be discussed.

Corporate Social Responsibility and Brand Trust:

Corporate social responsibility can also be used as a method to increase employee morale and satisfaction, improve retention, and help recruit new employees (Bakeman & Gottman, 2009). Greater employee morale can lead to increased productivity. Higher retention rates can reduce training costs related to new employees, increasing their efficiency and reducing their learning curve when adapting to positions. Stakeholder theory makes a strong argument for corporate social responsibility because it shows that companies serve several different groups of shareholders both inside and outside the organization (Carroll, 1979). This theory states that a company must keep its stakeholders satisfied in order to be successful. Employees and stockholders are deemed to be important stakeholders, but others such as suppliers, customers, and even outside communities can also be considered stakeholders. A company must satisfy this broad range of stakeholders as part of achieving its overall goals. Brand equity falls in line with many elements of corporate social responsibility. For example, creating a sense of brand community could occur through corporate actions within communities, such as sponsoring an exhibit at the local zoo or posting a CSR report on the company's website (Collis & Hussey, 2009).

One of the leading methods of valuing brands is customer-based brand trust, which states that brand equity is created by the customer. That is, the customer determines the level of brand equity an organization enjoys (Cornelius, 2007). In building brand equity, a company must understand the value systems of its customers, particularly regarding the customers’ preferences regarding corporate social responsibility. For example, a company can benefit from practicing CSR because customers tend to show a preference for companies that practice higher levels of social responsibility. Companies that engage in corporate social responsibility can benefit from building trust and stronger relationships with customers (Bakeman & Gottman, 2009). This could be an important part of an organization's relationship management strategy.

Pivato, Misani, and Tencati (2009) hypothesized that the first result of CSR activities is the creation of trust among stakeholders. The authors conducted a survey on consumers about organic products showing that corporate social performance (CSP) influences consumer trust and that it also influence the succeeding actions of the consumer. The findings reveal that there are intermediate variables between CSP and corporate financial performance.

Improvements to a company’s reputation through practicing social responsibility can also lead to increased brand equity (Bakeman & Gottman, 2009). A measure of corporate reputation developed by Sabrina Helm displayed many characteristics of corporate social responsibility, including the treatment of employees and a commitment to the environment, as well as charitable and social causes. Another benefit of strong brand trust is the creation of value in business-to-business activities, such as improved relationships with suppliers, business partners, and other stakeholders in the marketplace.

Many benefits of corporate social responsibility can be seen as increasing the level of internal branding. An example of internal branding would be involving employees in volunteer activities in the community, such as building homes with Habitat for Humanity. These types of activities help companies improve employee morale and create a better working environment. Strong brand equity can also help an organization attract highly qualified employees (Bakeman & Gottman, 2009). An increase in internal branding can lead to an increase in the overall brand trust of the company.

Summary:

In general, CSR is a widely accepted tool that is beneficial to both the organization and the stakeholders. There are many reasons why organizations engage in CSR activities. One of the reasons companies engage in CSR is to gain competitive advantage. Through CSR, companies can change the attitudes of consumers towards their products and company itself. Du, Bhattacharya, and Sen (2011) investigated the real-world CSR initiative and showed that consumers demonstrated the desired attitudinal and behavioral changes in favor of the challenger, who chose to implement CSR strategies. An organization’s reputation can be a strong reason for the company to engage in socially responsible behavior (Ali, Rehman, Ali, Yousauf, & Zia, 2010; Ellemers et al., 2011).

Previous studies have shown that customers become more loyal towards companies and organizations that they consider to be socially responsible (Martin, Ponder, & Lueg,
In the United States, there has been a renewed interest in the issue since the early 2000s, with bankruptcy affecting large groups like Enron, Arthur Andersen, WorldCom, and Xerox. CSR in financial banking institutions has been integrated in their business strategic plans (Pérez & del Bosque, 2012). Continued sustainability of financial institutions has implications in the adoption of CSR (Weber, Díaz, & Schwegler, 2012). CSR has an impact in the organization’s performance. However, only a few studies examined the relationship of CSR in terms of consumer loyalty and brand trust.

It is inconclusive to say whether corporate social responsibility and consumer loyalty are positively associated. Some studies state that there is a positive relationship between the two while other studies are stating that there is a negative relationship (Chung, Yu, Choi, & Shin, 2014; Liu, Hongli, & Fenglan, 2010; Mandhachitara & Poolthong, 2011; Martin, Ponder, & Lueg, 2009; Matute-Vallejo, Bravo, & Pina, 2011; van den Berg & Lidfors, 2012).

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**Appendix A: Table**

<table>
<thead>
<tr>
<th>Period</th>
<th>Concept</th>
<th>Description</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950s</td>
<td>Social responsibility</td>
<td>The duties of business owners to pursue policies, to enact decisions, or to follow a principled-based leadership in line with the values of the society.</td>
<td>Bowen (1953)</td>
</tr>
<tr>
<td>1960s</td>
<td>Social responsibility</td>
<td>Business decisions that are considered socially responsible can be justified by the economic returns of such decision.</td>
<td>Davis (1960)</td>
</tr>
<tr>
<td>1970s</td>
<td>Stakeholder theory</td>
<td>Rather than only striving for economic returns for the shareholder of the organizations, they should also take into consideration the interest of the stakeholders such as the employees, suppliers, manufacturers, consumers, local community, and the country.</td>
<td>Johnson (1971)</td>
</tr>
<tr>
<td></td>
<td>First model of CSR</td>
<td>The concept of corporate social responsibility can be explained in four responsibilities: economic, legal, ethical, and philanthropic.</td>
<td>Carroll (1979)</td>
</tr>
<tr>
<td>1980s</td>
<td>Three-dimensional</td>
<td>Corporate social responsibility should also take into consideration the policies, principles, and processes in the organizations.</td>
<td>Wartick and Cochran (1985)</td>
</tr>
<tr>
<td>1990s</td>
<td>Institutional Framework</td>
<td>The four types of responsibilities derived from Carroll’s model were linked to three levels of institution namely: legal, organizational and individual.</td>
<td>Wood (1991)</td>
</tr>
<tr>
<td>Early 2000s</td>
<td>Three-domain approach</td>
<td>Carroll’s first model of CSR was trimmed down to three responsibilities namely: economic, legal, and ethical.</td>
<td>Schwartz and Carroll (2003)</td>
</tr>
<tr>
<td>Late 2000s</td>
<td>New Concept</td>
<td>CSR is seen as process to integrate ethical, social, environmental, human rights and consumer concerns into the operations and core plan of the business together with the stakeholders.</td>
<td>European Commission (2011)</td>
</tr>
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