

# Effects of Corporate Social Responsibility on Customers Loyalty of Hai and Mawenzi National Microfinance Bank Branches in Kilimanjaro, Tanzania

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## Abstract

The study assessed the effects of corporate social responsibility and customer loyalty in NMB Kilimanjaro. The study aimed to examine whether Corporate Social Responsibility (CSR) efforts do impact customer loyalty; whether CSR initiatives have significant value in helping to attract indirect marketing value for the bank; and to determine whether CSR help to enhance customer loyalty towards a National Microfinance Bank. A case study approach was used to empirically test research model derived from the literature. Sample size of 100 respondents was used to address the research objectives by the use of Purposive sampling. Data was analyzed using descriptive statistics, Pearson correlation and regression model. The findings revealed that the higher the practice of CSR the stronger is the consumer loyalty towards a particular firm. The study revealed that by investing in CSR, a firm could achieve a positive outcome in terms of its financial performance. CSR can provide the additional competitive edge to a particular firm. The study concluded that out that all the CSR programmes are aligned with the Strategic Intent of NMB branches. It also established that programmes do contribute to attainment of the Strategic Intent at NMB through several contributions to the expectations of the various stakeholders of the organization. The key recommendation is that the current CSR programmes should be expanded to engage more employees and serve more needy cases in wider geographical areas. Secondly, NMB need to partner with more co-sponsors in order to benefit from the economies of scale.

Keywords: Effects • Corporate social responsibility • Customer loyalty

## Introduction

### Background to the study

In the past, financial performance was the major criterion to evaluate a firm's value. Higher ranks were given to firms that provide greater margins financially. Maximization of shareholders' wealth was, by far, the focal point of profit-driven organizations. In this decade, however, the perception about Corporate Social Responsibility (CSR) has changed significantly that the success of a company is now being measured by its contribution to society [1].

Corporate Social Responsibility has become a high profile issue generating great public interest. An extensive global survey found that two-thirds of people said they would like firms to contribute towards social goals beyond shareholders wealth [2].

The evidence shows that charitable donations in United States of America were given by corporations in 2011 amounted to \$14.6 billion, compared to \$9.05 billion in 2001 a 61.3% increase. United States did not increase steadily over the decade, signifying that certain social and economic events impacted corporate philanthropy [3].

Bhattacharya argued that, customers view an organization that carries out CSR activities positively and identify with it [4]. These positive customer discernments have been shown to lead to customer loyalty and satisfaction.

According to Oloko banks in Tanzania rely on customer loyalty and satisfaction as key forecasters of overall performance and success [5]. Management of attrition and customer devotion are key issues of a firm's strategic management agenda. By creating and maintaining customer loyalty, the firm develops a long-term, mutually beneficial relationship with its customers [3].

Devotion can be described as customers believing continuously that an organization's product or service remains their best option [6]. Loyal customers are those getting the product or service they require and believe that these products or services are superior to those of the competitor [7].

Recent studies on consumer behavior suggest that consumers are increasingly caring about the ethical dimensions of product or services which may have a positive financial impact for the firm if they can handle it well [8]. However, results from most of these studies just asked respondents to rank the companies ethical statements or how much they cared if the companies are socially responsible. This does not confirm whether consumers purchase behavior is influenced by the company's CSR activities.

Furthermore, even though scholars and business managements have participated in different kinds of arguments on the social responsibilities of business, there has been little investigation on the public's view towards these social issues. Thus, firm's managers will lack a clear understanding of what the public expects from them and how far they are supposed to go towards helping their societies. Hence, a gap in our knowledge of which

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particular socially responsible activity is likely to be most influential with consumers.

Commercial Banks in Tanzania, National Microfinance Bank (NMB) in particular do not exist in isolation. They contribute towards the GDP of the country, and meet the demand of the populace by providing access to a variety of products for instance loans, interest bearing accounts and trade finance. It is important for banks to pay special attention towards amalgamation of social and environmental concerns to their business agenda in order to achieve sustainable development. When customers view a company's CSR activities positively, they identify and remain loyal to that company [9]. It is against this backdrop that it can be understood that CSR forms an integral part of an organization's business activities and therefore this study need to assess the contribution of corporate social responsibility to customers' loyalty in Hai and Mawenzi National Microfinance Bank branches in Kilimanjaro region.

## Statement of the problem

There is growing interest in studying the relationship between CSR and marketing despite research into CSR being relatively new. Consumers expect to see more CSR activities from firms and managers are increasingly viewing CSR as a marketing tool.

Organizations have realized that in order to stay competitive, they must generate returns from every investment made. However, in light of this, resources are being allocated towards activities that benefit communities which comprises CSR. Carroll model explained this by describing four dimensions that make up CSR [10]. These include economic, legal, ethical and philanthropic undertakings. The benefits from CSR due to banks are largely expected to be customer devotion.

The existing customers would be proud to be associated with an organization that is making a positive impact to the community they live in. They also use CSR as an avenue to attract new customers to the institution leading to business growth and new opportunities. Banks in Tanzania, NMB in particular undertaking CSR activities includes environmental conservation, education, health and goodwill. These activities have also been used as platforms for marketing and advertising bank products and services, where new customers are sourced and existing customers are given cross selling opportunities. Thus they are able to give back to the society and at the same time generate new business opportunities that they can use to achieve customer satisfaction and loyalty.

To win loyalty in today's markets, companies have to focus on building and maintaining customer loyalty and CSR has become a useful tool in this regard. However, the relationship between CSR and customer loyalty remains largely unexplored [11]. Studies have shown that whilst a good motivator, CSR activities by themselves are not enough to inspire devotion of customers towards a specific banks [12]. This is further complicated by the large number of banks, micro finance institutions and other financial institutions that are all competing for the same clientele. Despite of these studies, however, little research has been done on CSR in relation to customer loyalty among NMB banks in Tanzania. This study therefore attempted to assess the effect of corporate social responsibility on customer loyalty in NMB branches at Kilimanjaro Region.

## Specific objectives

The study specifically aimed to:

- Examine whether Corporate Social Responsibility (CSR) efforts do impact customer loyalty to the study area.
- Establish whether CSR initiatives have significant value in helping to attract indirect marketing value for the bank
- Determine whether CSR help to enhance customer loyalty towards a National Microfinance bank.

## Theoretical Foundation of the Study

This study adopted the social economic and the stakeholder model. Socio-economic model is a classical CSR model which according to Zu has got two distinctive arguments. The first argument maintains that social responsibility of a business is a single dimensional activity in which businesses have the only responsibility being to supply goods and services to the society at a profit. Zu explains that this model has a narrow focus of the role of business to the modern society. Zu further argues that the classical CSR model focuses on the cost of the company's social involvement and sees profit as the only way to measure the efficiency of business operations. This argument according to Carroll cited in Zu ignores the reality that businesses is part of the bigger society and therefore has the obligation to expand its activity boundaries beyond profit maximization in its short term operations. According to Zu Stakeholder model was developed due to the realization of the lack of practicality in the socio- economic models by management scholars. This model postulates that companies should consider the interest of the different stakeholders in their operations, production and decisions.

Moser and Carroll explain that socio-economic models therefore argues that in order to understand the complexity of the social responsibility in the modern business a second dimension of the contemporary views in social responsibility is needed. This is explained by the managers' view of the company and decision making based on their assessment of the role of the company and whether their decision will result in profits. For organizations that practice CSR, the economic benefits outweigh the social interests of the beneficiary communities. So it can be argued that such a model might not appeal to the employees in participating in the CSR activity. In this study the researcher will be exploring the attitude of employees who work with banks that use the socio-economic model.

Mallin explains that consideration of the stakeholders who are related to CSR activity as actors may lead to a conclusion that CSR is a result of the interaction of the different actors. Zu explains that this model solved the problem of measurement and testing by defining the actors and their positions and functions in relation to one another.

The stakeholder model unlike the socio-economic model focuses primarily on the interests and concerns of the organization's stakeholders over economic interests. From the stakeholder model perspective, the focus becomes how to please and build mutually beneficial relationship with the beneficiary community. Based on this assumption, it can be argued that the underlying philosophy for CSR activities under the stakeholder model can produce positive attitude among employees thereby increasing their participation levels. In this study, the researchers examined the contributions of the stakeholder model CSR activities on employees in the banking sector in Kilimanjaro, Tanzania.

## Research Methods

### Description of the study area

This study was conducted in Kilimanjaro Region at the National Microfinance Bank of Hai and Mawenzi branches in Hai and Moshi district respectively. The unity of study was customers of both branches. The choice of NMB is because the bank is among financial institution leading with many customers of which majority are governmental employees which is at least 34,000 customers in two branches of which justification of their devotion might be measured compared to other commercial bank like CRDB with 8,234 customers from public sectors. Also NMB has experience in implementing CSR related projects such as supporting sports and recreations, health services environmental conservation, education services toward community development.

This study is driven by a positivistic epistemology based on quantitative research design of which cross section survey approach was used. It is a type of descriptive research design that supports inferences of cause and effect and measures the characteristics described in the research questions and hypothesis. This design was characterized by the collection of data on more than one case and at a single point in time.

The target population of this study was a customers of both branches which are approximated to 25,000 who have a saving and or current account and utilizes other bank services. The sample size of the study was 150 respondents. The study adopted simple random sampling technique of which every individual who were happened to look a service in the bank hall was chosen as respondents. Researchers used lottery method in obtaining the respondents which takes place for a week in each branch depending on customer's turn-up in bank hall. Those who was chosen they are subjected to dully filled questionnaire. Data were collected using questionnaire on getting primary data and documentary review for secondary data.

Quantitative data were analyzed using descriptive statistics of which standard deviations and percentages were computed while inferential statistics such as regression and correlation was computed under the aid of Statistical Package for Social Sciences to examine the relationship between NMB corporate social responsibility initiatives and their customers' loyalty.

## Findings and Discussion

### Examining whether corporate social responsibility (CSR) efforts do impact customer loyalty to the study area

In order to test the hypothesis, the bi-variate correlations were generated to determine the significance between the variables defined and posited in the seven hypotheses. The value generated through Pearson's Correlation Coefficient and sig (2-tailed) were used to determine the strength of relationship between the affected nodes. Owing to the nature of the questionnaire, the direct and indirect effect estimation could not be conducted.

The study found that most of the time, the increase in Corporate Social Responsibility will result in higher Brand Equity to customers. Therefore hypotheses are proven to be false. There is a significant relationship between Corporate Social Responsibility and Brand Equity which is linked to customer loyalty. The finding is in line with prior work by Neito who stated that CSR imperatives can add value to all major stakeholders in a company and this includes adding value to consumers [13]. As mentioned in the literature review, the relationship between Consumer Company Identity (CCI), CSR and Customer loyalty (CL) remains inconclusive [14,15]. While commentators such as Perez suggested that CCI can lead to greater CL, the relationship between CCI and CL mediated by CSR ideals remains inconclusive [15]. The findings in this context, is consistent with the sporadic viewpoints in the literature.

On seeking to establish the effect of corporate social responsibility on customer loyalty in NMB in Kilimanjaro Region, the study established that it does not only take the provision of quality products and services for organizations to gain public support. The type of employees an organization has is also a major factor. Therefore it is prudent for organizations to develop

responsible and ethical staff, which in turn provides good quality services to customers thereby leading to customer excellence.

The study found out that CSR policies can lead employers to form favorable perceptions of the organization. Such policies influences employee commitment to the organization as they make them feel proud to be associated with the good that the organization does to its constituents and may make them more eager to share the "good deed" that the organization does with others outside the organization. The study findings are in line with Tsai et al who say that employees should be encouraged to learn new and innovative ways of relating with customers as this will be beneficial to both the customers and the organization due to the positive feedback gained from the consumers.

The study established that end result of CSR are fulfillment of the organization's responsibilities towards society and that the staff has to be committed in their work in order to establish an organizational culture devoted to provision of quality service to consumers. They gain confidence from the consumers leading to customer satisfaction hence becoming a source of competitive advantage.

### Determining whether corporate social responsibility initiatives have significant value in helping to attract indirect marketing value for the bank

All the respondents appreciated the fact that NMB bank engage in CSR. The respondents also responded that the most publicized CSR activity is the education sector support, sports support, Community Projects, environmental Conservation and health sector supporting while activity like giving sponsors to brilliant needy students, Sponsorship of Children Homes in Kilimanjaro and its environs like Moshi and Bomang'ombe towns where NMB staff participate to raise funds for children with health problems. The respondent's observed that all the CSR programmes in the NMB branches are sustainable in the long run.

According to Brammer and Millington, CSR policies can lead employers to form favorable perceptions of the organization. Such policies influences employee commitment to the organization as they make them feel proud to be associated with the good that the organization does to its constituents and may make them more eager to share the "good deed" that the organization does with others outside the organization.

Tsai et al say that employees should be encouraged to learn new and innovative ways of relating with customers as this will be beneficial to both the customers and the organization due to the positive feedback gained from the consumers. The end result will be a fulfillment of the organization's responsibilities towards society. The staff has to be committed in their work in order to establish an organizational culture devoted to provision of quality service to consumers. This gains confidence from the consumers leading to customer loyalty hence becoming a source of competitive advantage.

### The researcher sought to determine whether CSR help to enhance customer loyalty towards a national microfinance bank

The researchers sought to find out how the bank's CSR activities will have an effect on the clients and the customer's loyalty and the finding were presented in Table 1.

**Table 1:** Customer's attitude towards the National Microfinance Bank

Customer's attitude towards the Bank	Mean	Stand. dev
I feel comfortable having an account with my bank knowing it makes an efforts on CSR	4.12	1.125

I do not think about my banks' CSR activities	3.21	0.643
I will not support the bank if it engages in unethical and unfair practices	4.13	1.237
I will support the banks' CSR activities because I think part of the commissions made from my services is going to help others	4.27	1.23
I will not support the bank if it engages in insincere CSR practices	3.98	0.941
I expect my bank to actively participate and support CSR activities	4.1	1.043
I choose to bank with my current bank due to its activeness in CSR practices	3.1	0.897

The study found that the CSR activities in NMB affect the loyalty of the customers. The respondents observed that they would not support the bank if it engages in unethical and unfair practices and also if it engages in insincere CSR practices as shown with a mean score of 4.13. They agreed that they would support the banks' CSR activities because they think part of the commissions made from their services is going to help others which shown by the mean score of 4.27 with a standard deviation of 1.23 in Table 1. A large number also noted that they feel comfortable having an account with their respective NMB branches knowing it makes an effort on CSR.

In reviewing the literature indicated that CSR programmes can predict organizational competitiveness and customer satisfaction in all types of organizations in general and retail banking institutions in particular. Retail banking institutions can build competitive advantage through involvement in the above reviewed CSR activities because they are influenced by all of them. This means that these activities can easily be crafted into the organization's overall strategy. However, managers should take into account various micro and macro environmental factors before implementing them.

The study established that for service organizations to be successful in the marketplace, they must be able to maintain a good and long-term relationship between them and their clients as it will lead to repeat purchases and eventual customer commitments. Such commitment is only possible when customers are satisfied with the services offered. Customer loyalty is a key factor in any business success [7].

Therefore it is the responsibility of organizations to provide equality products and services in order for them to be trusted by the consumers. There is varied opinion in academic literature on the relationship between customer satisfaction and customer loyalty. There are some researchers who have concluded that the relationship is asymmetrical. However, some have shown a direct link by concluding that more satisfied customers are likely to make a repeat purchase that leads to the generation of more favorable evaluations and attitudes and ultimate consumer loyalty. This can be a source of competitive advantage. One of the reasons why clients switch banks is dissatisfaction which is caused mainly by unfavorable tariffs.

According to Richardson and Robinson, customers close their accounts in banks because of dissatisfaction caused by among other reasons poor service as perceived by the customers, employees who are rude or unhelpful to the clients and the impersonal nature of the banking institutions. The most important factors that determine bank customer retention and acquisition are quality service and customer satisfaction.

## Conclusion and Recommendations

### Conclusions

The study concludes that NMB have managed to embrace Corporate Social responsibility practices that align with the strategic intent of the organization. The study also acknowledges that the CSR programmes are sustainable but also noted that the same programmes are not adequately funded. The study contend that the CSR programmes have a localized reach

and are overly specialized on the "Seeing is Believing" theme while ignoring other equally deserving needs like the curbing of unemployment among the vast majority of the youth.

The study also concludes that communities are the stakeholders who derive tangible benefits from the CSR investments at NMB, while the employees and customers are more of spectators than beneficiaries. The weaknesses mentioned above, impose a significant shortcoming in the CSR programmes' ability to deliver the strategic intent of NMB through the delivery of some or all of the expectations of all some or all of the stakeholders of the organization. Therefore, the study concludes that the CSR programmes have not adequately enhanced the attainment of the strategic intent of NMB due to inadequate funding, inefficient CSR models, localized geographical reach and externalities like inflation, poverty levels and unemployment levels.

To create maximum benefit from customer relationship management such as increase in the services and products cross-sales reduction in customer disagreements, high level of customer satisfaction and loyalty and the ability to form close contacts and relationships with the customers in terms of technologic, informatics and social terms. Therefore, the study further concludes that customer relationship management significantly assists the bank in developing collaborative, cooperative and profitable long-term relationships with client.

### Recommendations

The study recommends the National Microfinance Bank (NMB) should make most of whatever resources that is available to devote to Corporate Social Responsibility (CSR). Communication on the CSR investment and tangible positive outcomes should be done to customers and the general public which will help them better understand the contributions the bank is making. The study recommends that bank should allocate more financial resources to the CSR kitty of NMB to cater for publicity and elaborate organization of the events.

The current CSR programmes should be expanded to engage more employees and serve more needy cases in a wider geographical area. There is urgent need to come up with a CSR model that delivers tangible benefits to all stakeholders from each CSR investment by bank.

The study recommends to the policy maker the National Assembly that should come with laws and regulations that stipulate the minimum ratio of CSR kitty to Profits after tax to guard against insignificant allocations to CSR investments. NMB should strive to attract more co-sponsors in order to benefit from the economies of scale.

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