



**THE IMPACT OF ISLAMIC BANKS' CORPORATE SOCIAL RESPONSIBILITY  
ON ITS CUSTOMERS' LOYALTY**

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**ABSTRACT**

The purpose of this research is twofold, firstly is to make the mapping of the CSR activities or CSR sectors of the six Islamic Banks in Surabaya, Indonesia (study 1) using the descriptive method of content analysis of six Islamic banks' annual report of 2015. Secondly to investigate the effects of CSR activities of the Islamic banks toward the customers' loyalty (study 2). The second study is causal research using simple linear regression using SPSS 17.0. Data were collected using questionnaires and the respondents are those having bank account in Islamic banks that were taken using accidental sampling technique. The sample size is 118. The result of the first study are 1) based on the Category classification, the banks' CSR programs mostly were delivered to the following sectors successively showing the more dominant order namely staff development (33%), donation (25%), education (24%), health (8%), Helping disaster (6%) and bank product development (4%); 2) Based on the benefits or impacts of CSR activities, the result showed successively from the more dominant to the least one namely promotion (34%), business impact (23%), philanthropy (23%), and mindset change (15%). The result of the second study is that Corporate Social Responsibility (CSR) of Islamic banks has significantly effects towards the loyalty of the customers

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**INTRODUCTION**

Companies including banks must be committed to develop and improve their concern to Corporate Social Responsibility (CSR) since, banks especially, their business is strongly based on trust, while people's trust is fundamentally built on the good image of the banks built from CSR activities. Referring to its stakeholders, CSR has dimensions namely customer, employee, shareholder, government and the general public who each has the demands on the company's CSR. Thus, companies should be able to map where the stakeholders are in the priority implementation of Companies CSR that it can give positive impacts for both companies and for stakeholders (Perez and del Bosque, 2015) In Indonesia, implementing CSR has been an obligation for those of public limited companies as set by regulations of CSR namely Act No. 40/2007 on Limited Liability Companies. Anyhow, the importance of CSR was coming up after the issuance of Decree of the Minister State Owned Enterprises no. Kep-236/MBU / 2003 on BUMN Partnership Program with Small Business and Community Development Program. Corporate social responsibility (CSR) has been well adopted by banks in Indonesia especially for those having been in go public status. CSR becomes part of strategic planning to encourage

marketing action of banks. It is also supported by the condition of the community that become smarter and more aware of social and moral concern given by corporates.

In Indonesia with the population is of about 250 million people with the majority of them is Muslim, anyhow Islamic banks are not yet developing as expected. Although non-Muslim customers are interested to have bank account at Islamic banks, but Muslim customers are not as many as the majority. This becomes interesting to investigate from the point of view of the customers who have been the customers of Islamic banks first. Whether or not they have intention to be loyal customers. Yusof *et al* (2015) confirmed that the nature of the relationship between CSR and customer loyalty is an attractive area of study to explore

**Theory and Hypotheses Framework**

**CSR in Banking Industry**

Theories about CSR in the banking industry is often preceded by an understanding of the banking industry's stakeholders that involve either directly or not directly with the bank business; or parties affected or affecting business purposes of the bank. Stakeholders of banking industry are customers, employees, suppliers, community, government and stockholders. CSR is also defined as the company efforts to meet its obligations to its stakeholders. (Lindiawati, 2016). Stakeholders of banking industry include internal and

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external, voluntary and involuntary, or primary and secondary. The dimensions of CSR are divided into the following (Perez and del Bosque, 2014): a) Customer-oriented CSR which refers to complete and honest information about bank products and services, as well as the management of complaints; b). Shareholders and the board of supervisors-oriented CSR which refers to transparency and access to information on company profit; c).Employee-oriented CSR which refers to job creation, job opportunities; d) Society / community-oriented CSR which refers to donations, community development and environmental protection; Legal and ethics-oriented CSR which refer to legal and ethical issues. Perez and Bosque (2014: 127), Demirag (2005) CSR benefits for stakeholders banks should receive attention because it will contribute to the bank's business continuity. Making CSR as the obligation set by regulation, needs to be designed in order to effectively and efficiently beneficial for the public and the banks. Companies should be able to map where the stakeholders are in the priority implementation of Companies CSR that it can give positive impacts for both companies and for stakeholders (Perez and del Bosque, 2015)

### **Sectors and Benefits of CSR**

According to Khan (2010), Laidroo (2013), Jain *et al* (2015), Hinson (2011), Kansal *et.al* (2014), formulated aspects that measure in assessing CSR in which that CSR has contributions in the following sectors or categories of health, education sector, support the impact of natural disasters, other donations, activities for employees, social problems, products, services, and reports. Several studies conducted in Polish, Indian, Bangladesh, China, Japan, America and Australia is about the sectors targeted CSR banking industry. Aspects to measure are Ethical standards, CSR Reporting, environment, product, community, employees, supply chain, which is the result of research benchmark Jain, Keneley and Thomson (2016). Another thing that a lot of CSR banks examined are related categories of banks (Krasodomska, 2015), Khan (2010).

### **Stakeholder Theory**

The relationship between companies, in this case is banking institution, with their stakeholder must get special attention. Most organization focuses a lot on how to increase profit and develop their market size, but they might not really focus on the awareness that the strong driver to get good profitability and good market share is the stakeholders. Stakeholders can be those that are in the organization (employees, students, securities, lecturers, owner/ investor) and those that are outside the organization that are government, customer, supplier, community (Lindiawati, 2009).

the interaction between an institution and the stakeholder can go two ways: the stakeholder can influence the institution and the institution can influence the stakeholder (Fleisher & Bensaussan, 2003; Pearce II & Robinson, 2003), Marketers should analyze the potential of their stakeholders especially the key stakeholders that are organization, group, or individual that strongly influence the existence of the institution The most important objective of a business is not only the responsibility of the shareholder as it has been so far, but it has been transformed into a social scope which is then called social responsibility. Such phenomena occur because of the demands of the community due to negative externalities that arise and social inequality that occurred. Therefore, the

company's responsibility, which was only measured only in economic indicators in the financial statements, must now be shifted by taking into account social factors to internal and external stakeholders. The intended stakeholders are people or groups that can influence or be influenced by various decisions, policies, or operations of the company.

### **Customer Loyalty in Islamic Banking**

Loyalty is measured by looking at the number of customers who continue to buy from the company due to the positive attitude its products generate; while Baumann *et al*, 2011 defined loyalty as an attitude and a behavior. By these two approaches of attitude and behavior then Amin *et al* (2013) elaborated loyalty into its dimensions which there are two dimensions that measure loyalty namely behavioral and attitudinal loyalties. Behavioral loyalty is customer's behavior to repurchase due to their liking of particular goods or services. Attitudinal loyalty refers to emotional and psychological state of the customer to repurchase and to recommend to other people. In banking industry, customers often develop an attitude toward purchasing behavior based on past experience which was strongly based on trust to the banks. If customers are strongly satisfied, they continue dealing with the bank, and provide positive comments affecting other people they know. While, if they are not satisfied they will respond negatively and switch to other services.

Referring to loyalty of customer to Islamic banks, the research result of Amienet *al* (2013) demonstrated that the loyalty of Muslim and Non-Muslim customers to Islamic banks is influenced by customers being satisfied, as well as the image of and trust in Islamic banks. If customers are unwilling to trust Islamic banks, they are unwilling to be loyal either. Muslim customers establish relationships with Islamic banks because they trust that Islamic banks are Shariah compliant. So, if Islamic banks provide secured banking product that are fully compliant with Islamic principles is strongly needed. Referring to the Muslim and Non-Muslim segments, further, Amienet *all* (2013) explained that trust has significant relationship with customer loyalty for both segments.

### **The relationship between CSR and Customer Loyalty**

The importance of incorporation of corporate social responsibility (CSR) as a business strategy was triggered by the sharper competition in an industry. Yusof *et al* (2015) explained that CSR incorporated in business strategy starts from the growing concern of customers, employees, and management. Better attention to CSR by customers, workers, and government was based on the idea that businesses exist not just for getting profit, rather it is recognized as a fundamental part of corporate marketing strategies of the corporation.

While CSR is being part of moral attention of customers, then CSR leads to the intention of customers to be loyal to a corporate or not.

### **Research Hypothesis**

Based on the research of Yusof *et al* (2015) and the theories reviewed above, the only hypothesis that is going to be tested is as follows:

*Corporate Social Responsibility has a significant effect on Islamic banks' customers' loyalty*

**RESEARCH METHOD**

The research consists of two studies which firstly conducts the mapping of the CSR activities or CSR sectors of the six Islamic Banks in Surabaya, Indonesia. In this study, the mapping covers the sectors of CSR and its impacts. The impact category is taken from Solihin (2009) categorizing that the CSR impacts of banks fall into philanthropy, promotion, business impact, and mindset change. These impacts are set in the priority from the least to most ideal impact for community.

The second study is a causal research that was conducted to know the effects of CSR activities of the Islamic banks toward the customer loyalty. This study used questionnaire method. The population of this study are customers who have bank account with Islamic banks in Surabaya, Indonesia so they have knowledge about CSR. The study involved 118 customers from 160 questionnaires distributed (73.8% response rate). Sampling technique in this research used Accidental Sampling. Data analysis techniques used Simple Regression Analysis (SRA) using SPSS 17.0 Indicators of each variable are described in Table 1.

The result showed that based on the Category classification, the banks' CSR programs mostly were delivered to the following sectors successively showing the more dominant order namely staff development (33%), donation (25%), education (24%), health (8%), Helping disaster (6%) and bank product development (4%). The implication is that while those three categories are well supported, banks quite equally care of internal wealth.

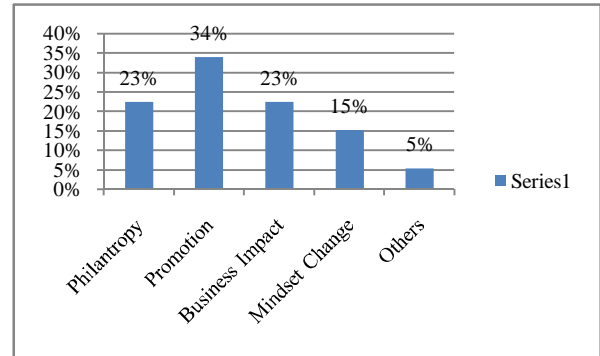


Figure 2 CSR Impacts of Islamic Banks

Source: Data processed

Table 1 Measurement of Variables

No	Variabel	Indicator
1	Corporate Social Responsibility	1. Working environment of this Islamic bank is comfortable
		2. This Islamic Bank concerns to its environment
		3. This Islamic Bank conducts social program for community
		4. This Islamic Bank charge fee that suitable for the benefit
		5. This Islamic Bank provide good service quality
		6. This Islamic Bank shows high commitment to fulfill its customers' expectation
2	Loyalty	7. The customer service staff are committed to help customers
		1. I will share the goodness of the service of this Islamic Bank.
		2. I will recommend other people to have transaction with this Islamic Bank
		3. I like this Islamic Bank more than other banks
		4. I don't mind having more transactions with this Islamic Bank

Source: Mandhachitara, R., & Poolthong, Y. (2011).

**DATA ANALYSIS AND DISCUSSION**

**Study 1**

The analysis refers to the classification of CSR activities of Islamic banks in Surabaya, Indonesia, based on category falling into environment, health, education, disaster, donation, Employee, and product; and based on the impacts or benefits of CSR activities covering philanthropy, promotion, business impact, and mindset-change. Using content analysis on six sample banks, data were explored from 2015 Islamic banks' annual reports.

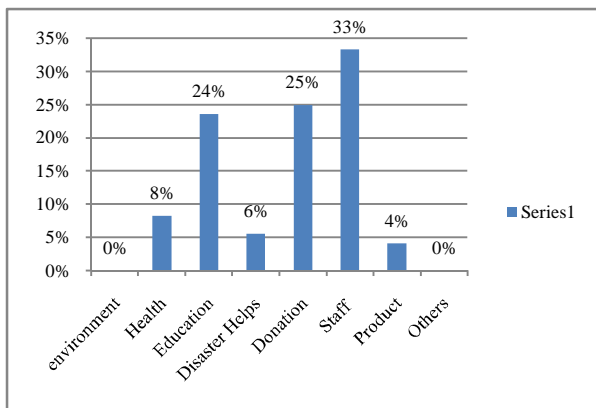


Figure 1 CSR Sectors of Islamic Banks

Source: Data processed

Based on the benefits or impacts of CSR activities, the result showed successively from the more dominant to the least one namely promotion (34%), business impact (23%), philanthropy (23%), and mindset change (15%). The least impact of mindset change leads to the implication that the effect level of CSR in Islamic banking industry is still low. This due to the theory explained by Solihin (2009) is that mindset change is the highest impact showing the ideal impact of CSR.

**Study 2**

**Description of Research Subject**

Descriptive Analysis describes the characteristics of respondents as research subjects, including, age, gender, occupation, and income per month.

Based on the age of respondents, most aged 21-30 years with the percentage of 67%. Based on the sex of the respondents, most men with a percentage of 53%. Based on the last education most of respondents' gender, it shows that male takes 48 (41 %) while female takes 70 (59%). Based on the respondents's occupation, it shows that state owned employee takes the biggest number namely 60 (51%). Based on income per month, most of the income is ≤ 5 million (IDR) with a percentage of 74 %. All of the data in detail can be seen in Table 2

**Tabel 2** Descriptive Characteristic of Respondents

Characteristics	Description	Frequency	Percentage
Age	15-20 years	10	8 %
	21-30 years	67	57 %
	31-40 years	18	15%
	>50 years	23	19 %
Gender	Male	48	41 %
	Female	70	59 %
Occupation	Business owner	21	18 %
	State-owned employee	60	51 %
	Private employees	11	9 %
	Student	11	9 %
	Pension	4	3 %
	Housewife	6	5 %
	Professional	5	4 %
Income/month (IDR)	≤ 5 millions	87	74 %
	5-10 millions	23	19 %
	10-15 millions	8	7 %

Source: Data Processed

**Validity and Reliability Test Results**

Test of sample validity was done for 118 respondents having account with Islamic bank. Validity test indicates that the items measuring a variable are valid if the significance value of each item statement is below 0.05. The test results of the validity test is that all items of both the variables of Corporate Social responsibility and Loyalty of Islamic banks are valid.

While the reliability test which tests the consistency of the items or the indicators indicates that the items are reliable if the Cronbach alpha is above 0.6. The result of reliability test showed that all items are reliable. The detail result of both validity and reliability tests are in Table 3.

Based on the Reliability Test it indicates that the Corporate Social Responsibility variable has the value of Cronbach Alpha of 0.897, while loyalty has the value of 0.855. All variables' Cronbach Alphas are above 0.6 so they are reliable.

**Tabel 3** The Result of Validity and Reliability Tests

Variabel	Indikator	Validity	Reliability	Variabel	Indikator	Validity	Reliability
Corporate Social Responsibility	CSR 1	0.523	0.906	Loyalty	lay 1	0.514	0.855
	CSR 2	0.613			Lay 2	0.460	
	CSR 3	0.491			Lay 3	0.513	
	CSR 4	0.549			Lay 4	0.326	
	CSR 5	0.561					
	CSR 6	0.622					
	CSR 7	0.460					

Source: Data Processed

**Descriptive Analysis Results**

The measurement of Corporate Social Responsibility variables consists of 7 statements or indicators with the

**Tabel 5** The Result of t-Test

Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardized Coefficients	Standardized Coefficients			
	B	Std. Error	Beta		
1 (Constant)	3.734	1.171		3.189	.002
Rcsr	.434	.043	.686	10.162	.000

a. Dependent Variable: Rlay

Source: SPSS Output.

measurement scale of one to five. The response of respondents on the variables of Corporate Social Responsibility in total indicates 'Agree' on the item. The measurement of loyalty variables consists of statements or indicators with a measurement scale of one to five. The results of loyalty indicates 'Agree' on the item statement or indicator questionnaire, this is indicated on the average mean score of 3.88. The details are shown in Table 3.

**Statistical Analysis Results**

The result of design of inner model and outer model is then expressed in the form of lane diagram. The path diagram designed for this study can be seen in Figure 1 for the inner model and outer model.

**Evaluation of Model**

R-Square of the model is 0.466 (adjusted) which means that the model is moderate enough because it has the value is almost 0.5. It means that Corporate Social Responsibility and loyalty of the customers of Islamic Banks is quite good in building the research model.

**Hypothesis Testing (t test)**

The t-statistical test basically shows how far the influence of one explanatory or independent variable is partially in explaining the variation of the dependent variable. Here are the results of the Partial Test (Test t) in Table 5. Influence of Corporate Social Responsibility towards loyalty

Is tested by looking at the score of significance in coefficient table of the SPSS output showing that the significance is 0.000 which lower than 0.05 meaning that corporate social responsibility significantly affects the loyalty. By having the unstandardized coefficient beta score of 0.434, it means that CSR effect to influence loyalty is 0.434. In other words, if CSR increases one point it influence the increase of loyalty as of 0.434.

**DISCUSSION**

Based on the results of research that has been conducted can be explained that Corporate Social Responsibility (CSR) has a significant and positive effect on loyalty of the customers of Islamic banks in Surabaya, Indonesia. The results of this study is of similar with the result of previous research investigated by Yusof *et al* (2015)

Based on the analysis that has been done, The significance means that the respondents perceive that the Islamic banks have good working environment, concern to environment, and conduct social activities that care of community problems. They also perceive that the Islamic banks charge fair fees that

compensate the good benefits for the customers. From the perspective of the service, Islamic banks provide good service to their customers, have strong commitment in fulfilling the expectations of their customers and are willing to help their customers. These condition lead to the loyalty of the Islamic banks' customers that are willing to positively share the good service of the banks, recommend other people (family, relatives, friends) to have an account with Islamic banks. These respondents also show that they like Islamic banks more than other banks (conventional banks), and they are also willing to have more transactions with Islamic banks.

Based on the characteristics of respondents in term of age, it showed that the dominant age is in the range of 21-30 years old taking 57 % (67 respondents out of 118). This showed that the customers of Islamic banks come from you people having job as state-owned companies (civil service staff) taking 51% (60 respondents out of 118). This might be predicted that the respondents are civil service staff having pay roll with Islamic banks and this is the policy of the local government to transfer the salary to local government Islamic banks.

## CONCLUSION

In general, the two studies conducted can be concluded as follows:

1. The kinds of sectors of the CSR activities of Islamic banks in Surabaya fall in environment, health, education, disaster helps, donation, bank staff, and bank product development of the bank.
2. The dominant of the CSR sector is for developing the banks' staff.
3. The highest impacts of CSR of the Islamic banks in Surabaya predicted through the kinds of their CSR activities is for promotion of the Islamic banks, followed by the impact of philanthropy, business impact and the least is mindset change.
4. Corporate Social Responsibility (CSR) of Islamic banks has significantly effects towards the loyalty of the customers.

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