

# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CUSTOMER LOYALTY OF COMMERCIAL BANKS IN VIETNAM: THE MEDIATING ROLE OF CUSTOMER SATISFACTION

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**Abstract:** *This study investigates the impact of Corporate Social Responsibility (CSR) on customer loyalty in commercial banks in Vietnam, with a specific focus on the mediating role of customer satisfaction. A total of 386 bank customers were surveyed, and the data were analyzed using Structural Equation Modeling (SEM). The results show that CSR positively affects both customer satisfaction and customer loyalty, with customer satisfaction acting as a significant mediator in the CSR-loyalty relationship. This study provides valuable insights for banking institutions in Vietnam, highlighting the strategic importance of CSR in fostering customer loyalty through improved customer satisfaction. The results also offer practical implications for banks to refine their CSR strategies to align with customer values and expectations.*

• Keywords: *commercial bank, CSR, customer loyalty, customer satisfaction, SEM.*

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## 1. Introduction

The impact of Corporate Social Responsibility (CSR) on the banking sector has become increasingly significant as customers, investors, and stakeholders expect banks to contribute positively to society beyond their financial services. In recent years, customers have placed a growing emphasis on ethical business practices, environmental sustainability, and community development, all of which are core components of CSR. For banks, engaging in CSR initiatives is not only a moral obligation but also a strategic move to build trust, enhance brand reputation, and differentiate themselves in a highly competitive market (Hassan et al., 2011)

From a customer perspective, CSR activities are crucial in shaping their perceptions and attitudes toward a bank. Customers are more likely to develop loyalty to banks that they perceive as socially responsible, as these initiatives align with their values and beliefs. When banks engage in meaningful CSR practices, such as supporting local communities, promoting environmental sustainability, or ensuring ethical governance, they enhance customer satisfaction and loyalty (Kim, 2024). Banks, as pivotal institutions in the financial sector, are no longer only judged by their economic performance but also by their social and environmental impact. CSR activities have emerged as a strategic tool for building and maintaining customer

loyalty in the banking industry (Al-Ghamdi & Badawi, 2019). Besides, the global financial crisis 2008 served as a stark reminder of the crucial role of ethics and social responsibility within the banking sector, suggesting that customers may place more excellent value on financial institutions perceived as ethical and responsible, which can positively influence their trust and subsequent loyalty.

In Vietnam's banking sector, customers increasingly expect banks to act socially responsibly, valuing CSR that aligns with local values (Sang, 2022). However, how CSR affects customer satisfaction and loyalty remains underexplored. This study addresses this gap by examining CSR's impact on loyalty, focusing on customer satisfaction as a mediator, offering insights for theory and practice in emerging markets.

## 2. Literature review and Hypothesis

### *Corporate Social Responsibility (CSR) in the Banking Industry*

Corporate Social Responsibility (CSR) refers to businesses' voluntary actions to contribute to societal goals, including economic, social, and environmental concerns. In the banking sector, CSR activities range from charitable donations and environmental sustainability efforts to community development projects and ethical business practices (Velte, 2022). With increasing consumer awareness and expectations,

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CSR has evolved from a mere philanthropic endeavor to a strategic business tool fostering competitive advantage (Agyei et al., 2021).

Several studies have highlighted CSR's significant role in shaping customer perceptions and behaviors. According to Gu (2023), CSR practices enhance corporate reputation and trust, which is essential for cultivating customer loyalty. Banks that demonstrate a commitment to CSR are likely to attract and retain customers who align with their values. Furthermore, CSR in the banking sector helps differentiate banks from competitors, particularly in emerging markets where consumers are becoming more socially and environmentally conscious.

**Customer Loyalty in the Banking Industry**

Customer loyalty refers to the long-term relationship with a company, characterized by repeated patronage and positive attitudes toward the brand. In the banking sector, customer loyalty is often the result of various factors, including the quality of products and services, customer experience, and trust in the institution (Dam, 2021).

Research indicates that customer loyalty is strongly influenced by satisfaction, trust, and emotional connections with the brand (Ehigie, 2006). In banking, loyal customers are more likely to recommend a bank, use additional services, and remain with the bank for extended periods, which are crucial for a bank's profitability and market share (Ehigie, 2006). From the above analysis, the hypothesis asserts that implementing CSR practices by commercial banks directly affects customer loyalty.

*Hypothesis H<sub>1</sub>: CSR positively influences customer loyalty.*

**The Role of Customer Satisfaction**

Customer satisfaction is the extent to which customers' expectations are met or exceeded by the products or services they receive. In the banking industry, customer satisfaction is a multidimensional construct that includes factors such as service quality, ease of transaction, responsiveness, and trustworthiness (Jamal, 2003). When a bank engages in CSR activities, such as contributing to environmental sustainability, supporting local communities, or ensuring ethical business practices, it enhances its reputation. It strengthens customers' positive perceptions of the bank (McDonald & Rundle-Thiele, 2008). Research by Alafi and Hasonah (2012) suggests that CSR practices align with customers' values; it fosters a sense of pride and trust in the bank, directly influencing satisfaction. From the above analysis, the hypothesis suggests that implementing CSR practices by commercial banks directly affects customer satisfaction.

*Hypothesis H<sub>2</sub>: CSR positively influences customer satisfaction.*

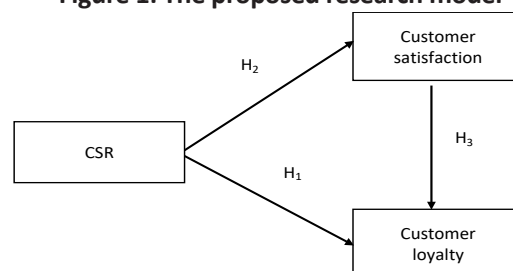
**The Mediating Role of Customer Satisfaction**

While many studies have examined the direct relationship between CSR and customer loyalty, fewer have explored the role of customer satisfaction as a mediator. Some studies suggest that CSR activities may influence customer satisfaction by improving the bank's overall customer experience and perception (Nareeman & Hassan, 2013). Customer satisfaction serves as a bridge between CSR and customer loyalty, mediating the effects of CSR on customer behavior. According to a study by Al-Ghamdi and Badawi (2019), CSR initiatives that enhance customer satisfaction increase loyalty, particularly when customers perceive these initiatives as authentic and aligned with their values. Furthermore, CSR-related satisfaction may strengthen customers' emotional connection toward the bank, fostering long-term loyalty. From the above analysis, this hypothesis suggests that customer satisfaction is a mediator between CSR and customer loyalty.

*Hypothesis H<sub>3</sub>: Customer satisfaction mediates the relationship between CSR and customer loyalty*

The research model is shown in the figure 1

**Figure 1: The proposed research model**



**3. Methodology**

**3.1. Sample**

**Table 1. Sample demographics**

No	Variables/ Criteria	Frequency	Percentage
1	<b>Gender</b>		
	Male	177	45,85%
	Female	209	54,15%
2	<b>Age</b>		
	From 18 to 30 years old	186	48,18%
	From 31 to 40 years old	134	34,72%
	From 41 to 50 years old	52	13,47%
	From 51 to 60 years old	14	3,63%
3	<b>Education</b>		
	Undergraduate	298	77,20%
	Graduate	82	21,25%
	Other	6	1,55%

A survey was conducted among Vietnamese commercial bank customers using Google Forms and snowball sampling, yielding 386 valid responses meeting Hair et al.'s (2019) recommended sample size. The sample includes diverse demographics to capture

broad customer perceptions of CSR, satisfaction, and loyalty toward banks with CSR initiatives. Table 1 summarizes respondents' demographics: 54.15% female, mainly aged 18-40, with 48.18% aged 18-30 and 34.72% aged 31-40. Most have higher education 77.20% undergraduate and 21.25% graduate degrees.

### 3.2. Measurement

Data for this study were collected through an online survey distributed to bank customers. The survey includes questions measuring the key variables: CSR, customer satisfaction, and customer loyalty. The survey was designed using Likert-type scales, with responses ranging from 1 (strongly disagree) to 5 (strongly agree) to assess the degree to which customers agree with various statements related to CSR practices, their satisfaction with the bank, and their loyalty behaviors. Corporate Social Responsibility (CSR) was measured using a multi-item scale that evaluates the extent of the bank's engagement in socially responsible activities, including environmental efforts and community support. CSR was measured using the scale adopted by Fatma and Rahman (2016) and Muflih (2021).

Customer satisfaction (CR) was measured using a scale that evaluates the customer's overall satisfaction with the bank's services, the quality of customer service, and the bank's responsiveness to customer needs. Customer satisfaction (CS) was measured using the scale adopted by Karadeniz and Gozuyukari (2016) and Al-Ghamdi and Badawi (2019). Customer loyalty (CL) was measured through behavioral intentions and was measured using the scale adopted by Mohsan et al. (2011) and Hasan et al. (2021).

## 4. Results

### 4.1. The measurement model

Data analysis for this study will be conducted using Structural Equation Modeling (SEM), a statistical technique that tests complex relationships between multiple variables. SEM is particularly suited for examining direct and indirect effects in mediation models, making it ideal for testing the hypotheses proposed in this study. Table 2 provides various reliability and validity measures for the constructs used in the research, including Loading, Cronbach's Alpha, Composite Reliability (CR), Average Variance Extracted (AVE), and Heterotrait-Monotrait Ratio (HTMT). The author applied the guidelines of Hair et al. (2019) to test the measurement model's reliability, convergence, and discriminant.

Table 2 shows factor loadings from 0.800 to 0.984, all exceeding the 0.70 threshold, indicating strong item-construct relationships. Cronbach's alpha and Composite Reliability (CR) values above 0.70 confirm internal consistency. AVE values over 0.50 indicate

good convergent validity, while HTMT below 0.90 confirms discriminant validity, supporting a robust and reliable measurement model.

**Table 2: Reliability, Convergence, Discriminant**

Items	Loading	Cronbach's alpha	CR	AVE	HTMT
CSR1	0,871	0,924	0,929	0,817	0,407 - 0,866
CSR2	0,902				
CSR3	0,866				
CSR4	0,972				
CS1	0,820	0,956	0,960	0,853	0,335 - 0,873
CS2	0,800				
CS3	0,873				
CL1	0,853	0,776	0,775	0,691	0,326 - 0,899
CL2	0,893				
CL3	0,899				
CL4	0,981				
CL5	0,984				

Note: CSR: Corporate Social Responsibility; CS: Customer satisfaction; CL: Customer loyalty

### 4.2. Hypothesis Testing

Table 3 presents the results of the hypothesis testing, showing the path coefficients, t-values, p-values, and decisions regarding the acceptance or rejection of the proposed hypotheses. The hypotheses relate to the relationships between Corporate Social Responsibility (CSR), Customer Satisfaction (CS), and Customer Loyalty (CL).

**Table 3. Hypothesis testing results**

Relationships	Path coefficient	t-value	P values	Decisions
CSR → CL	0,114	2,343	0,019	Accept $H_1$
CSR → CS	0,414	9,371	0,000	Accept $H_2$
CSR → CS → CL	0,165	6,519	0,000	Accept $H_3$

Note: CSR: Corporate Social Responsibility; CS: Customer satisfaction; CL: Customer loyalty

The path coefficient between CSR and customer loyalty (CL) is 0,114, indicating a positive relationship with the p-value of 0,019 is below the commonly accepted significance level of 0,05. Therefore, the hypothesis (H1), which suggests that CSR positively influences customer loyalty, is supported and accepted. Besides, the path coefficient between CSR and customer satisfaction (CS) is 0,414, indicating a moderate positive effect, and the p-value of 0,000 is well below 0,05, indicating a powerful and statistically significant relationship. Therefore, the hypothesis (H2) posits that CSR positively influences customer satisfaction and is strongly supported and accepted. In addition, the indirect path from CSR to customer loyalty through customer satisfaction has a path coefficient of 0,165, indicating a moderate positive relationship. The p-value of 0,000 suggests that this indirect relationship is highly significant. Thus, the hypothesis (H3), which proposes that customer satisfaction mediates the relationship between CSR and customer loyalty, is supported and accepted.

### 5. Discussion and limitation

The data support all three hypotheses. The findings suggest that CSR has a positive effect

on customer loyalty, CSR significantly enhances customer satisfaction and Customer satisfaction plays a mediating role between CSR and customer loyalty. Firstly, the positive path coefficient between CSR and customer loyalty supports the notion that CSR initiatives can enhance customer loyalty in the banking sector. This finding aligns with previous research (Al-Ghamdi and Badawi (2019; Sang, 2022) demonstrating CSR's ability to strengthen customer relationships and loyalty. While the effect is statistically significant, the relatively low path coefficient suggests that CSR alone might not be a sufficient driver of customer loyalty. This finding highlights the importance of other factors, such as service quality, product offerings, and customer experience, in building loyalty. The relatively modest effect size could be attributed to the fact that customers may still prioritize other banking factors (e.g., convenience, service quality) over CSR efforts. However, CSR has a role in differentiating banks and enhancing customers' emotional connection with the institution, ultimately contributing to their loyalty.

Additionally, the path coefficient of 0,414 between CSR and customer satisfaction reveals a strong, positive relationship, supporting the argument that CSR activities significantly impact how customers perceive the bank. This finding corroborates prior studies (Nareeman & Hassan, 2013; Al-Ghamdi & Badawi (2019), which suggest that CSR initiatives improve customer satisfaction by aligning with their values and enhancing their overall banking experience. Banks that engage in CSR activities contribute to societal welfare and create a more favorable image among their customers, leading to increased satisfaction. Customers tend to view CSR-engaged banks as more trustworthy, responsible, and ethical, strengthening their emotional connection with the bank. This finding highlights the value of CSR as a strategic tool for banks aiming to build long-term relationships with their customers and foster customer satisfaction.

Moreover, the significant path coefficient (0,165) of the indirect relationship between CSR and customer loyalty, mediated by customer satisfaction, reinforces the importance of satisfaction in the CSR-loyalty relationship. This result aligns with the concept that CSR activities can influence customer loyalty directly and through customer satisfaction. The findings suggest that customer satisfaction plays a crucial role in strengthening the effects of CSR on customer loyalty, which is consistent with existing literature (Al-Ghamdi & Badawi, 2019). In short, CSR boosts customer satisfaction, which then drives greater loyalty. This mediation highlights that banks must align CSR efforts with customer expectations to enhance satisfaction. A holistic approach integrating CSR into overall customer

relationship management is essential, with continuous monitoring of CSR's impact on customer perceptions to foster loyalty.

The results suggest that commercial banks in Vietnam can benefit from strengthening their CSR initiatives, as these activities positively correlate with customer satisfaction and loyalty. However, while CSR can enhance satisfaction and foster loyalty, banks must recognize that CSR should be considered part of a broader strategy. Banks should complement their CSR efforts with high-quality service, competitive product offerings, and effective customer relationship management to leverage CSR benefits fully. Banks can also use the findings to refine their CSR strategies further, ensuring that their initiatives align with customer values and preferences. For example, banks might focus on environmental sustainability, community development, or ethical business practices based on the most critical issues for their customers.

This study offers valuable insights but has limitations. The sample is limited to Vietnamese commercial bank customers, restricting generalizability to other regions or sectors. Future research should examine CSR, satisfaction, and loyalty across diverse contexts and consider additional factors like service quality, trust, and emotional attachment for a fuller understanding of customer loyalty drivers.

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