

The Effect of Corporate Social Responsibility on Employee Satisfaction and Loyalty: A Research on Banking Sector Employees in Erbil, Kurdistan

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Abstract

The study examines the effect of corporate social responsibility on employee satisfaction and loyalty. The undertaking of this study is based on observations that have been made which pointed out that engaging in corporate social responsibility is helping influencing bank employees' satisfaction and loyalty towards banks. But this argument has been surrounded with many different and contrasting ideas and at the end of it all there is no consensus of the exact implications of corporate social responsibility on employee satisfaction and loyalty in the banking sector. Spearman correlation coefficient test was used to determine the nature of correlation that exist between corporate social responsibility on employee satisfaction and loyalty. Hypotheses tests were conducted using paired sample t-test while the validity of the variables was determined using Cronbach's alpha. The results from the study showed that corporate social responsibility on employee satisfaction and loyalty are positively correlated with each other. The null hypothesis that CSR practices have no significant effect on employee loyalty was rejected. However, the null hypothesis that CSR practices have no significant effect on employee satisfaction was accepted.

Keywords: Corporate Social Responsibility, employee satisfaction, employee loyalty

Introduction

Corporate social responsibility (CSR) has been a key issue in organisation and its use in the banking sector has been commended to offer huge potential benefits (Windsor, 2006). Such is important in Kurdistan Region of Iraq which has been characterised by negative perceptions towards banks (Adam, 2014). Such follows the financial crisis that took place in 1991 in Kurdistan Region of Iraq (KRG) which saw bank customers losing a significant amount of their deposits. This greatly affected bank consumers' and workers' perception, trust, satisfaction and loyalty towards banks. As a result, the use of CSR is considered to play a huge positive role towards improving bank customers' satisfaction and loyalty but also that of bank employees (Qinghua et al., (2014). However, it was established that the influence of CSR practices on organisations are mainly observable in the area of employee satisfaction

and loyalty (Lam, Zhang, & Baum, 2001; Lum et al., 1998; Mandhachitara & Poolthong, 2011). This idea is however disputed by scholars who argue that CSR practices have so many influences on organisations and that their magnitude of effect differs from one organisation to another and from one country to another (Ali et al., 2010; Zafar & Ali, 2016). It therefore remains unclear as to how CSR will affect bank employees' satisfaction and loyalty in KRG. This study therefore seeks to examine the effect of CSR on employee satisfaction and loyalty in relation to KRG.

2. Literature Review

2.1 The stakeholder approach to CSR

CSR is usually regarded as a strategy developed by organisations on how to deal with social issues and public policy (Lantos, 2002). Scholars like Maignan and Ferrell (2004) consider it to be a philanthropic act by organisation towards the society and to a relative extent, towards their employees. Such definitions and perceptions imply that the community in which businesses operate, families and employees, consider that the business is liable for their social welfare. These individuals together with suppliers and governments are known as stakeholders and propositions made by the stakeholder theory points out that organisations have a social obligation to perform to their stakeholders (Kreitner & Kinkicki, 2001). But the question is on the implications on CSR practices towards the organisation. That is, how does CSR practices organisations? Is it a matter of socially branding an organisation or it is a strategy that is aimed at improving the performance of the organisation? Questions can also be placed on how CSR practices will influence employees in an organisation in terms of satisfaction and loyalty. All these questions can be answered by the stakeholder theory and the nature of influence of CSR on an organisation depends on the targeted stakeholders. This study will however be restricted to the study of the implications of CSR practices on employees and hence will be confined to examine the implications of CSR practices on employee satisfaction and loyalty.

2.2 Empirical literature review on CSR practices, employee satisfaction and loyalty

Suher, Bir and Yapar (2017) conducted a study that looks at the influence of CSR on employees' satisfaction and loyalty using descriptive statistics. The study based its findings on a study of 180 students and the findings showed that there is a positive relationship that exist between CSR practices, employee satisfaction and loyalty. This implies that the adoption of in CSR practices by banks will result in improvements in their employees' satisfaction and loyalty.

Zafer and Ali (2017) did a study that looked at how CSR affects employee commitment in Pakistan using a sample of 500 employees working in the telecommunications industry. The obtained findings

provide support to the idea that CSR practices positively contribute towards improving employees' commitment towards an organisation. With commitment and loyalty being strongly interrelated, it can thus be said an improvement in employee commitment will thus help foster employee loyalty.

Ali et al (2010) placed efforts on examining how CSR affects organizational performance and employee commitment. The findings highlight that CSR positively alters employees' perceptions about how the organisation values and cares for them. As a result, employees will be more committed towards helping the organisation achieve its goals. This will positively contribute towards in proving organisational performance. Hence, this implies that well satisfied and loyal employees will play a huge role towards improving bank performance.

Mandhachitara and Poolthong (2011) did a study that modelled the relationship between customer loyalty and CSR. It was observed that organisations that are capable of developing and implementing CSR practices have a high tendency to influence customers perceptions of how committed they are towards improving customer satisfaction through services delivery. Hence, it contends that CSR results in research and development activities which can be used to gather information on how to constantly satisfy customers. This eventually leads to an improvement in customer satisfaction and loyalty and hence it shows that CSR practices and customer loyalty are positively related with each other.

Crespo and Del Bosque (2005) undertook a study that investigates the impact of CSR on loyalty and valuation of services. The results are in confirmation of the findings made by Mandhachitara and Poolthong (2011) which asserts that CSR practices and loyalty are positively related with each other. Such can be supported by ideas given by Qinghua et al. (2014) which showed that there is a positive change in customers' perception that occurs whenever CSR practices are implemented into action. But the influence of CSR is also assumed to have positive effects on the value of services offered by the organisation (Mandhachitara & Poolthong, 2011). However, the main idea behind the use of CSR practices has been established to be the need to improve organisational performance though such improvements are through different mediating channels (Meyer & Allen, 1997).

It can be noted that though the ultimate goal of CSR hinges on the targeted stakeholders, the main focus is sometimes to improve the performance of the organisation. The given studies do show that improvements in performance is observed through mediating channel or variables which in this case are employee satisfaction and loyalty. Hence, the study will be confined to examine how CSR practices influence employee satisfaction and loyalty in relation to banks in KRG. Using the given literature, deductions can thus be made that there is a positive relationship that exists between CSR, employee satisfaction and loyalty.

3. Research Methodology

The study is a qualitative approach that involves the examination of the effects of CSR practices on employee satisfaction and loyalty on banks in Kurdistan Region of Iraq, the study was based on the examination of one private bank, one state owned bank and one internationally owned bank. The population under study consisted of a total of 140 employees drawn from 1 private bank, 1 state owned bank and 1 internationally owned bank in Erbil, KRG. The study used a sample size that was obtained from sampling methods used by Neuman (2004) and the use of such a sample size determination method results in a sample size that offers a close reflection of the population. The formula is given as follows;

$$S = \frac{P}{1 + P(MOE^2)}$$

Where the sample size is denoted by S , population size by P and the margin of error by MOE which is given as 0.05 and this results in a sample size of 104 respondents.

The demographic part of the questionnaire was obtained from a study by Gurung (2013) while the informative part was obtained from the study by Suher, Bir and Yapar, (2017). Improvements were however made so as to cater for emerging issues and empirical gaps. Spearman correlation coefficient test was used to determine the nature of correlation that exist between perceptions to CSR practices, employee satisfaction and loyalty.

Independent t-tests were used to test the hypothesis that familiarity of CSR practices does not cause significant variation in the employees' perception of CSR practices while reliability tests were conducted using Cronbach's alpha. Independent samples Mann-Whitney U Test was used to test the validity of the proposed main hypotheses. The study sought to establish the validity of the following null hypotheses;

CSR practices have no significant effect on employee loyalty.

CSR practices have no significant effect on employee satisfaction.

4. Data Analysis and Presentation

Out of the 104 questionnaires that were distributed to the three banks, 74 questionnaires were successfully retrieved which represented a response rate of 71.15%. as a result, conclusions and recommendations will be based on the analysis made from this response rate.

Observations can be made that the three banks are mainly composed of male employees who constituted 62.2% of the response rate as opposed to 37.8% female employees. A significant number of employees can be noted to be within the age group of 32-38 years while a huge number of employees who have more work experience can be noted to have been working for the banks for at least 6 to 10 years. 41.9% of the employees have master's degree, 18.9% are professionally qualified while 2.7% employees have other qualifications.

Table 1: Analysis of demographic features

Variable	Description	Freq.	%
Gender	Male	46	62.2
	Female	28	37.8
Age	18-24 years	5	6.8
	25-31 years	28	37.8
	32-38 years	31	41.9
	Above 39 years	10	13.5
Educational qualification	Diploma	7	9.5
	Undergraduate	20	27.0
	Master's degree	31	41.9
	Professional qualifications	14	18.9
	Other	2	2.7
Work experience	Less than 1 year	9	12.2
	1-5 years	12	16.2
	6-10 years	42	56.8
	More than 10 years	11	14.9
Familiarity with CSR practices	Yes	29	39.2
	No	45	60.8

Table 2: The influence of educational qualification of CSR practices

	Familiarity of CSR practices	Number	F-statistic	Sig.
Perception to CSR practices	Yes	29	2.568	0.113
	No	45		

Independent t-tests were used to test the hypothesis that familiarity of CSR practices does not cause significant variation in the employees' perception of CSR practices. Based on the established, the null hypothesis is accepted at 0.05 significance level and conclusions can be made that familiarity of CSR practices does not cause significant variation in the employees' perception of CSR practices.

Table 3: The influence of familiarity of CSR practices on employee loyalty

Null hypothesis	Test	Sig.	Decision
The distribution of employee loyalty is the same across categories of familiarity with CSR practices	Independent samples Mann-Whitney U Test	0.372	Accept

Based on table 3 results, we can accept the null hypothesis that the distribution of employee loyalty is the same across categories of familiarity with CSR practices. This is possibly because employee loyalty is being influenced by other things such as salaries and benefits such as retirement packages and health insurances.

Table 4: The influence of familiarity to CSR practices on employee satisfaction

Null hypothesis	Test	Sig.	Decision
The distribution of employee satisfaction is the same across categories of familiarity with CSR practices	Independent samples Mann-Whitney U Test	0.653	Accept

Independent samples Mann-Whitney U Test in table 4 reveal that we can accept the null hypothesis that the distribution of employee satisfaction is the same across categories of familiarity with CSR practices at 5% significance level.

Table 5: Spearman correlation coefficient tests

		Perceptions to CSR practices	Employee satisfaction	Employee loyalty
Perceptions to CSR practices	Corr. Coeff. Sig.	1 -		
Employee satisfaction	Corr. Coeff. Sig.	0.503 0.000*	1 -	
Employee loyalty	Corr. Coeff. Sig.	0.421 0.000*	0.575 0.000*	1 -
* Significant at 0.01 significance level				

Spearman correlation coefficient test was used to determine the nature of correlation that exist between perceptions to CSR practices, employee satisfaction and employee loyalty. Foremost, it can be noted that employee loyalty and satisfaction are significantly and positively correlated with each other by 0.575 at 1% significance level. This implies that improvements in employee satisfaction moves positively along with employee loyalty. This can be supported by findings made by Zafar and Ali (2016) which suggests that the more employees are satisfied by either working for a particular organisation, then more loyal they will be to that organisation. This can possibly be as a result of the fact that bank employees in Kurdistan of Iraq are happy with the CSR practices of the banks as well as the banks approach to their welfare and needs.

The correlation coefficient results also show that employee loyalty is significantly and positively correlated with Perceptions to CSR practices by 0.421. The correlation can however be said to be weak. This is possibly because CSR is an insignificant determinant of employee loyalty as compared to compensation or remuneration. Such can be noted from observations made by Ali et al. (2010) which suggests that CSR the influence of CSR practices on employee loyalty is conditionally limited by its ability to cater for the financial needs of the employees.

Employee satisfaction can also be noted to be moderately and positively correlated with Perceptions to CSR practices by 0.503 and this correlation is significant at 0.01 significance level. This can be explained by the idea that perceptions to CSR practices help to positively show the banks' commitment to its employees. This can be reinforced by ideas given by Suher, Bir and Yapar (2017) which suggests that CSR practices are important because they help to demonstrate an organisation's commitment to its employee's needs and welfare.

Table 6: Hypothesis results

Hypothesis	p-value	Decision
CSR practices have no significant effect on employee loyalty	0.000	Reject
CSR practices have no significant effect on employee satisfaction	0.532	Accept

The study sought to establish if CSR both practices have a significant influence on Employee loyalty and satisfaction. The validity of the proposed hypotheses was determined by using paired sample t-tests. The obtained results showed that the null hypothesis that CSR practices have no significant effect on employee loyalty can be rejected at 5%. Conclusions can thus be made that CSR practices have a significant effect on employee loyalty. However, the null hypothesis that CSR practices have no significant effect on employee loyalty can be accepted at 5%.

Table 6: Reliability tests

Variable	Cronbach's alpha
Perceptions to CSR practices	0.876
Employee satisfaction	0.718
Employee loyalty	0.687
Combined alpha value	0.806

Number of times = 3

Reliability tests were conducted using Cronbach's alpha and the results show that all the variables have relatively high alpha values which are high enough to warranty reliable estimates of the effects of CSR practices on employee satisfaction and loyalty. The variable Perceptions to CSR practices had a high alpha value of 0.876 while employee satisfaction and employee loyalty had alpha values of 0.718 and 0.687 respectively.

Conclusion

Conclusions can therefore be made that CSR plays an important role in organisations such as banks as it helps to positively influence both employees and customers' perceptions towards the banks. Such is relatively important to banks in KRG which have been facing severe reputational, trust and confidence challenges. Conclusions can also be made that CSR has positive effects on employee satisfaction and loyalty but major challenge affecting the effectiveness of CSR practices on bank employees' satisfaction and loyalty is that most of the employees are not familiar to CSR practices, and that employees tend to focus a lot on monetary benefits as opposed to CSR.

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