

## THE CONTRIBUTION OF CORPORATE SOCIAL RESPONSIBILITY FOR INCREASING CORPORATE IMAGE AND WORD OF MOUTH IN INDONESIA ISLAMIC BANK

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### **Abstracts**

Recently Corporate Social Responsibility (CSR) is highlighted as an important factor to make figure in many industries. Interestingly, there are not many researches in Islamic banking industry. The purpose of this research is to analyze whether CSR has a significant relationship toward Corporate Image (CI) and Word of Mouth (WOM) in Islamic bank. Furthermore, this research also to examine the effect of CI toward WOM in Islamic banking industry. The data is collected using questionnaire method involving 238 bank's customer who get chosen for CSR program from bank. The data is analyzed using Partial Least Square. The result from this research showed that CSR has a positive significance effect towards CI and CI has positive has positive significant effect towards Word of Mouth. In the end, this research revealed that banking industry should focus more on implementing effective CSR because it shows positive correlation toward creating positive CI and WOM which could persuade customer decision toward choosing their personal Bank.

### **Research paper**

**Keywords:** CSR, Corporate Image, WOM

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## **Introduction**

Corporate Social Responsibility is seen not only as a regulatory and ethical obligation, but also as a marketing tool for the company. Researcher and marketing experts believe that CSR could influence customer decision making (Maruf, 2013). Some studies indicates that CSR could also influence corporate image (Green & Pelozza, 2014; Ailawadi et al., 2012; Lindgreen & Swaen, 2010; Lizarraga, 2010; Banyte et al., 2010). Studies from Maden et al, (2012) shows that CSR has significant relationship toward Corporate Reputation. In addition, some studies also indicates that CSR has influence in customer purchase intention (Fatma & Rahman, 2016).

Even though there are many studies observing CSR influence toward customer response specifically toward marketing, however there are lack of research in banking industry which relates CSR toward WOM. The research toward the relationship of CSR, CI, and WOM are essential to be discussed, especially in countries who have high collectivism culture as highlighted in Geert Hofstede studies. This is because the information from WOM could highly influence others customer.

There are many studies toward the relationship of CSR in banking industry and purchase intention, yet there are not many studies relating CSR and WOM. This phenomenon is important to be raised because WOM is not only affect customer purchase intention, but also trust (Ammar et al., 2015). Scholars also said that WOM is a critical success factor in the service industry (Berry and Parasuraman, 1991). In the service industry, negative WOM could impact customer trust, leading in low customer purchase intention.

Highly competitive environment in banking industry pressure banks to implement CSR program to improve brand image. However, it should be

done strategically and effectively which in turn could lead to improve company image and customer response. Good customer response could shape positive WOM which support company marketing communication. Hence, this research will focus on to discover the relationship of CSR toward CI and WOM and also the relationship of CI toward WOM.

## **Theoretical review and hypotheses**

### ***Corporate Social Responsibility (CSR)***

The most important objective of a business is not only the responsibility to the shareholder as it has been so far, but it has been transformed into a social scope which is then called social responsibility. According Harahap in Hadi (2011: 93) that 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 (Hadi, 2011: 93).

Lately, CSR is valued not only as a company obligation but also a valuable intangible asset which must be managed because it effects company strategically. Lai et al., (2010) in his studies emphasize the importance of CSR for stakeholders, especially in a strategic way. Company who implement CSR means that they are doing business in ethical way and for the benefit of the wider community, responding positively and prioritizing emerging social priority expectations, balancing shareholder interests to the interests of the wider community and being a good citizen of the communi-

ty. In other words, CSR is about the organization's obligations to all stakeholders, not just to shareholders.

CSR involves legal, ethical, and philanthropic dimension which sought by the public (1979). In general CSR relates to environment, social, economy and philanthropy. Based on the legal dimension, it means that the company implement CSR to obey the government or social rules. Based on the environment dimension, company has a responsibility toward its surrounding (Beckman et al., 2009; Doshmanli et al., 2018). Furthermore, company should comply and benefit the environment, especially the continuity of the environment. In regards to the social dimension, company has a responsibility toward their public stakeholders. Some of the responsibilities are to deliver safe products, quality products as promised by the company. The third dime as promised by the company. The third dimensions are economic dimensions, which according to Gunesh & Geraldine's research (2015) the goal of company as economic institution who create products and services are to gain profit. Lastly, philanthropy dimensions which focus on giving the public financial help. Based on all of the fourth dimensions, this study will view all of these four as company main responsibility and goal.

### ***Corporate Image***

A collection of images in the public mind form a corporate image. The corporate image reflects a public perception of past actions and will be the company's future prospects explaining the company's overall approach from ethical stakeholders to other leading companies. The company believes that customers will be increasingly looking for good corporate citizenship that is more than just supplying rational and emotional benefits.

Corporate Image (CI) is the perception of external stakeholders toward a company (Wartic, 2002; Chun, 2005; Cian & Cervai, 2014; Salamzadeh et al., 2016). The external stakeholders view a company based on observation, experience, and information. All of these factors might be controlled or uncontrolled by the company. In addition, CI can be shaped by consumer perception toward product image, brand image, and brand consumer images. Hence, CI is a holistic perspectives of a company based on the perception of a consumer. This study view CI as an important aspect because to improve CI company have to be consistent in implementing their business strategy and CI is one of competitive advantage that helps company wins again another.

The elements of corporate image according to Maruf (2013) includes: corporate identity, individuality, physical environment, and service offering. Corporate identity can be classified as company logo, company name, company special attribute, product quality, price, and physical environment. The physical environment which could shape CI includes room condition, ambience, furniture, and decoration. In addition, personal contact which could reflect on employee image toward the consumer includes competent, attitude. All of these factors are essentials because according to Hurriyati & Sofyani (2010), CSR is one of the factors which could influence CI, the result of their studies indicates that there is a positive influence between CSR and CI.

### ***Word of Mouth (WoM)***

Word of Mouth is part of marketing where consumers talk about, promote, and sell the brand to others verbally. According to Kotler & Keller (2016), a

personal communication channel of word of mouth can be an effective method of promotion because information is delivered from consumers by consumers and to consumers, so satisfied consumers can become media Promotion company.

According to Kotler & Keller (2016) there are two main benefits in Word of Mouth activities that is 1) word of mouth source can be a convincing source because it comes from consumers, by consumers, and for consumers. Satisfied customers not only buy back the product but also can be a promotional media that runs. 2) the source of word of mouth is a low promotional cost because indirectly consumers who are satisfied with maintaining good relationships can make the consumer as a provider of media promotion and business. This business can be a special discount or offer other gifts.

According to Lily Sura Ningrum and I Ketut Nurcahya (2014) states there are three indicators that can measure Word of Mouth are: a) willingness to say positive about corporate and product, b) willingness to recommend to others, c) invite relatives to use product.

### ***Research Hypothesis***

Ningrum & Nurcahya (2014) and Hurriyati et al (2010) mentioned that CSR affects CI. Studies show that CSR has a positive influence toward CI and Corporate reputation (Nayickas, Kontautiene, 2011). CSR activities conducted by company could give positive view toward consumer and if done consistently will empower Ci and WOM. Hong & Rim (2010) in their studies also strengthen this statement by examining the effect of CSR in WOM. Their studies showed that good CSR positively correlate with WOM. In ad-

dition, Lindgreen, Swaen (2010), stated that CSR activities will shape CI into a company who has commitment and social responsibility which in turn will develop trust, competitive advantage, and brand reliability. Based on previous research, these hypotheses are:

**H1:** CSR has a significant effect on Corporate Image

**H2:** CSR has a significant influence on Word of Mouth

**H3:** Corporate Image has significant effect on Word of Mouth.

### **Research Methods**

This study used questionnaire method to collect the data. In addition, Likert scale in the range of 1-5 is used as the variable measurement. The population of this study includes customers who have knowledge about CSR conducted by the Banks and frequently transact and visit Banks. The study involved 238 customers gathered by using accidental sampling. The data then analyzed using Structural Equation Modelling with Partial Least Square Method. Table 1 shows the blue print of variable measurement in this study.

**Table 1.** Research instruments

| <b>Variables</b>   | <b>Indicator</b> | <b>Item</b>  |
|--|------------------|--|
| <i>Corporate Social Responsibility</i>                       | Economic         | I understand that the Bank involves in environmental friendly activities     |
|  |                  | I understand that the bank gives beneficial product                          |
|  |                  | The Bank CSR's activities is beneficial to me                                |
|  | Legal            | The Bank comply to protect customer's privacy                                |
|  |                  | The bank never breaks the law  |
|  |                  | The bank complies to the law   |
|  | Ethical          | Bank gives sufficient information  |
|  |                  | Bank gives affordable price  |
|  |                  | Bank gives accurate information.   |
|  |                  | Bank comply to ethical rule all the time                                     |
|  | Phylantropy      | Bank comply to ethical rule even though it may reduce the bank's performance |
|  |                  | I understand that the bank gives CSR information                             |
| I understand that the bank has a role to develop the society |                  |  |
|  |                  |  |

| <b>Variables</b>       | <b>Indicator</b>   | <b>Item</b>  |
|------------------------|--|--|
| <b>Corporate Image</b> | Personalitas   | Bank deliver product and service as promised                                 |
|                        |  | Bank do beneficial activities to the public                                  |
|                        |  | Bank care to the public  |
|                        |  | Bank commit to serve the public  |
|                        | Reputation   | The service provided by the bank Is reliable                                 |
|                        |  | The Bank is a trustable financial institution                                |
|                        |  | Bank has good corporate image  |
|                        | Value  | The bank employee is hospitable  |
|                        |  | The bank's employee tries to establish good relationships with its customers |
|                        |  | The bank's employee is quick to respond customer needs                       |
| Corporate Identity     | Bank provides diverse products and services.   |  |
|                        | Bank has a lot of branches in Surabaya.  |  |
|                        | The bank is strategically located in the main street.<br>The bank logo design is catchable |  |
| <b>Word of Mouth</b>   | Tell positive benefits to others   | I will give good impression for this bank.                                   |
|                        |  | I will tell a positive story for this bank.                                  |
|                        |  | I will tell the positive effect of CSR for this bank.                        |
|                        | Recommend to others  | This bank deserves to be recommended to the others.                          |
|                        |  | I will give recommendation to be a customer of this bank                     |
|                        |  | I will recommend the bank CSR activity to the others                         |
|                        |  | I will persuade others to open an account in this bank.                      |
|                        | Influence others   | I will persuade other to use this bank products                              |
|                        |  | I will persuade other to use the Bank CSR initiatives.                       |

## Results and Discussion

It's important to describe the characteristics of respondents such as age, gender, education, and occupation. From 300 questionnaires collected, 238 were fully completed and returned. The return rate of the questionnaires are 83.2%. Based on the age, mostly age of respondents in 17 until 27 years old (42%). Based on the sex of the respondents, most of them are men with a percentage of 59%. Based on education most of respondents have undergraduate education with a percentage of 47%. Based on the work of the respondents, most of them are private with a percentage of 28%. All respond-

ents have knowledge and experience about CSR program which conducted by Islamic banks. The information about characteristic respondent is presented in table 2.

**Table 2.** Respondents Profile

| <b>Atribut</b> | <b>Description</b>   | <b>Frequency</b> | <b>Percentage</b> |
|----------------|----------------------|------------------|-------------------|
| Age            | 17 s/d 27 year       | 100              | 42%               |
|                | 28 s/d 38 year       | 62               | 26%               |
|                | 39 s/d 49 year       | 28               | 12%               |
|                | > 49 year            | 48               | 20%               |
| Sex            | Female               | 98               | 41%               |
|                | Man                  | 140              | 59%               |
| Education      | Primary School       | 21               | 9%                |
|                | Senior high school   | 67               | 28%               |
|                | Diploma              | 37               | 16%               |
|                | Undergraduate        | 113              | 47%               |
| Job            | Students             | 40               | 17%               |
|                | Civil Servants       | 25               | 10%               |
|                | National Enterprises | 21               | 9%                |
|                | Private              | 48               | 20%               |
|                | Entrepreneurs        | 45               | 19%               |
|                | Others               | 59               | 25%               |

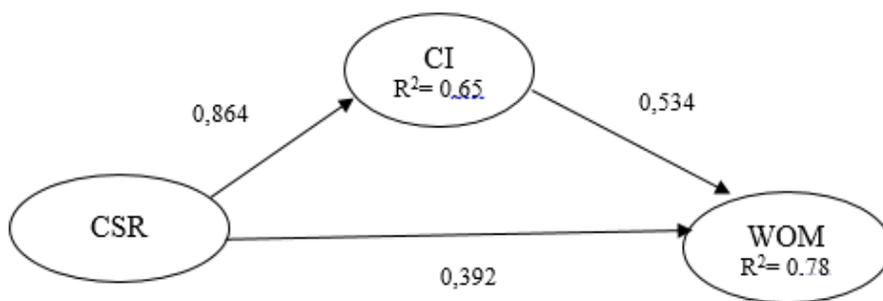
All instruments have been examined the validity and reliability, and the results showed that all items of all variables are valid (the correlation value of each item statement more than 0.60 at 0,05).

Based on the reliability test indicates that instrument measuring CSR instruments are reliable (Table 3). These Cronbach Alpha value of each construct are greater than 0.60. It means that all instruments have good reliability.

**Tabel 3.** The result of Reliability Test

| Constructs                            | Cronbach Alpha | Number of Items |
|---------------------------------------|----------------|-----------------|
| Corporate Social responsibility (CSR) | 0,897          | 14              |
| Corporate Image (CI)                  | 0,895          | 13              |
| Word of Mouth (WOM)                   | 0,896          | 9               |

The measurement of CSR consists of 14 statements or indicators with interval scoring from one to five. Mean of variable of CSR is 3.84, and mean of variable of Corporate Image (CI) which consists of 13 indicators is 3.95. Mean of variable of Word of Mouth (WOM) which consists of 9 indicators is 3.84.



**Figure 1.** The Effects of CSR on CI and WOM

T test result for examining the hypothesis is presented in table 4 indicated that value of  $t$  8,81 >  $t$  table 1,96. It means that all hypothesis are accepted. CSR has positive significant effect on CI and WOM. CI also has positive significant effect on WOM.

**Table 4.** Partial t Test Result

| No |                       | t result | t table value | OS   | result      |
|----|-----------------------|----------|---------------|------|-------------|
| 1  | CSR → Corporate Image | 1.653    | 1.96          | 0.80 | Significant |
| 2  | CSR → WoM             | 1.593    | 1.96          | 0.40 | Significant |
| 3  | Corporate Image → WoM | 2.318    | 1.96          | 0.52 | Significant |

## **Discussion**

Result found that Corporate Social Responsibility (CSR) has a significant positive effect on Corporate Image at bank industry. The results of this study are consistent with previous research that conducted by Maruf (2013) in non banking industry. Research was conducted by Lily Sura Ningrum, et al. (2014) and Ratih Hurriyati, et al (2010) in different industry also found that CSR has influence effect on Corporate Image. The customer perceives CSR in these five key factors which are the bank commitment toward its stakeholders, bank's service quality, how it treats its employee, and lastly the commitment of bank to give beneficial improvement toward its environment and the public. If the bank can deliver all of these activities consistently bank will get positive image from the customer. For example, if the bank consistently decides to implement CSR activities related to education and SME development, it will give a certain image toward its customer. In the end, the greater the CSR activities will reflect to the improvement of bank company image.

The result of this study shows that Corporate Social Responsibility (CSR) has a significant positive effect on Word of Mouth (WOM). The result of this study is relevant with the previous research by Lily Sura Ningrum, et al. which indicates positive influence of CSR on WOM. Furthermore, this study also supports the previous study conducted by Maden et al., (2012) who found that Turkish company, especially in the field of service proved that their CSR activities could improve their company reputation, which persuade the customer to change their attitude in a positive way to their customer. Hence, because banking and service industry has a similar business process, bank could imitate and improve their company image

through similar process. A good implementation of CSR by a bank will become a source of positive information and experience for the customer, which in turn will affect WOM. Customer who feel positive experience will tell other customer, share their experience, and recommend the bank as a financial service provider to the others.

Perceptions of the benefits derived from CSR conducted by Bank is very important. The greater the benefits perceived by the community from CSR will increase WoM in the community. CSR is one of the factors that cause the company to improve WoM in society. Research also found that Corporate Image has a significant positive effect on Word of Mouth (WoM) at bank industry. The results were supported the previous research investigated by Lily Sura Ningrum, et al (2014) which states that Corporate Image has positive effect on WoM. The positive image of bank can strive customer for doing WOM to others. A positive corporate image will be a source of conversation the public and strongly affect WOM to the others customer which in turn will affect purchase intention.

In the internet banking research, corporate image has an effect on customer trust and the creation of trust (Salehnia et al., 2014). This belief will encourage people to tell stories, make recommendations to others. The study conducted salehnia et al (2014) that customers who believe will be loyal and do WOM. The CSR performed by the bank on all stakeholders in this bank is good) mean = 3.84). This means that the bank has done CSR well, so it can improve CI and WOM. The CI and WOM shaped by CSR will be a positive thing for banks to improve the performance of other businesses. Studies show that CSR positively affects the company's reputation. The company's reputation will affect Customer outcome such as Customer

Perceived Value (CPV), Customer Satisfaction, Customer Loyalty, Switching Cost, Customer Commitment; Employee outcome such as organizational commitment, turnover intention, employee satisfaction; investor Outcome as Investor Loyalty and Investor satisfaction, and Purchase Intention as an Employment and Intention to invest and WOM (Maden et al., 2012). This research does not examine the topic in detail, but there is evidence that CSR has impact on various aspects of marketing performance, it is important for banks to implement appropriate and effective CSR programs in order to create value that enables them to achieve competitive advantage. Other studies also reinforce the result that customer perceptions of CSR have a positive impact on corporate reputation, trust and customer loyalty (Stanaland et al., 2011).

### **Conclusions, implications, suggestions, and limitations**

The results of this study reinforce studies conducted in other industries and become interesting findings in the banking industry in Indonesia, that CSR has a positive impact on CI and WOM. CI also has a positive effect on WOM. In today's competitive situation the bank not only uses the right marketing strategy but also needs to synergize between CSR and marketing strategy to create superior value to customers. The concept of CSR in accordance with the research conducted is based on the economic, legal, ethical and philanthropy motives. Banking should pay attention to these dimensions in doing CSR because its stakeholders assess the importance of it and this will impact on CI and WOM. CSR programs that are embodiments of these four dimensions should be packaged by tailoring stakeholder needs. This study is limited to the impact of CSR on CI and

WOM and the influence of CI and WOM, while there are many other aspects aside from the perspective of consumers that need to be studied further. Future research should look at the impact of CSR from the perspective of employees, investors and governments as part of corporate stakeholders.

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