Investigating the Impact of Social Responsibility and Service Innovation on Customer Loyalty in Tehran's Refah Bank Branches

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Abstract

The purpose of this study is to investigate the impact of social responsibility and banking service innovation on customer loyalty in Tehran's Refah Bank branches. From purpose viewpoint, this is an applied research, and from data collection viewpoint, this is descriptive-survey. The research population included all customers who use services provided by Refah Bank in the city of Tehran. Due to the dispersion of the statistical population, cluster sampling method was used to select the branches. Based on the unlimited population size formula, sample size was estimated 384 at 95% confidence level with a standard deviation of 0.5; therefore, 384 questionnaires were distributed. The structural equation modeling techniques have been used to conduct the necessary analyses. The research findings showed that social responsibility and banking service innovation have a positive and significant effect on customer loyalty.

Keywords: Social Responsibility, Service Innovation, Customer Loyalty

Introduction

Since loyal customers have become the main component of organizational success, creating customer loyalty is a concept that has become more prominent in today's businesses. Loyal customers are considered as reliable sources of profitability for companies, and due to the uncertainty surrounding the environment, an appropriate safe boundary is provided (Ghareche & Daboueian, 2011). On the other hand, due to the fact that customers are constantly on the rise, organizations are required to meet their customers' expectations and go beyond their initial needs and focus their attention on creating loyalty through service innovation and mutual and profitable communication. Barnes (2011) has argued that creating a high level of service innovation will bring satisfaction and customer loyalty, which in turn lead to increased market share and profitability. Today, efforts made by researchers, experts and managers of business organizations to improve the performance management tools and develop customer-oriented attitudes indicate that nowadays service innovation is one of the most important factors in determining the success of organizations in business and profitability (Filho et al. 2010).

A lot of research has been done on the concept and processes of social responsibility dimensions, but organizations and companies are looking for something beyond it (Lai et al. 2010). Robbins & Coulter (2005) argue that management social responsibility is victimized by seeking economic goals and acquiring profits and it tries to defend the community welfare. They believe that the new concept of the company is not only to maximize profits and meet customers' needs, but to satisfy all those who are somehow in connection with the company (Mojoudi et al., 2014).

Since the main capital and financial benefits of bank as a financial and credit institution are provided through depositing and offering customer services, customer loyalty to the bank can be considered as a key factor in the success and profitability of the bank. Additionally, in the competitive atmosphere, the cost of attracting new customers is actually higher than the cost of maintaining current customers; therefore, customer loyalty in service organizations, especially in banks, is of more importance due to their full dependence on customers for survival (Bove & Johnson, 2006). On the other hand, the bank's management levels as the main decision-makers and planners of organization are one of the sectors that have the potential to benefit from social responsibility issues. Commitment to social responsibility leads to customer loyalty. Financial institutions, especially banks, can increase their value among people by setting effective and innovative service policies. They can create not only customer loyalty, but also promote effective advertisement to enhance it (Mojoudi et al., 2014). Although, discussions related to social responsibility, loyalty and service innovation have a long history in the world, unfortunately in our country, the importance and status of this sector has not been addressed in the field of science and domestic business policies. Looking at the activities of service and financial institutions, it can be said that these institutions have not paid close attention to the processes of social responsibility and service innovation in regard with attracting customer loyalty.

This research seeks to determine the effects of social responsibility and service innovation on customer loyalty. In fact, the main question of this research is that due to the great importance of community welfare and social responsibility, and since the ultimate goal of all businesses is to satisfy customers and then have loyal customers, what effects acceptance of social responsibility and service innovation have on customer loyalty.

Theoretical framework and research background

Social responsibility

Social responsibility has different meanings; however, it is not always the same for all people. For some, it means commitment or legal responsibility. For others, this means socially responsible behavior in terms of ethical issues. For some, it means being responsible. Many consider it as charity gifts and donations. Some consider it as social consciousness. Many who have enthusiastically accepted this concept interpret it as legitimacy and acceptance. Few consider it as a kind of task assigned to apply higher standards of conduct to economic firms, traders and craftsmen and not citizens (Mortazavi et al., 2011). Debates on social responsibility go back to the time of Smith, namely the late eighteenth century. He addressed the promotion of public welfare and believed that the efforts of rival entrepreneurs would naturally be in parallel with the support of public interests. Karengi defined social responsibility in the 1890s (Arabsalehi et al., 2014).

Regarding social responsibility, French and Saward write in their book (Managing Change in Organization) that social responsibility is the responsibility of private institutions; in other words, they have no adverse effect on the social life in which they work. This duty generally involves tasks such as not infecting, not discriminating in employment, failing to engage in immoral activities and informing the consumer of product quality. It is also a task based on positive participation in people's life in the society (Mortazavi et al., 2011).

Customer loyalty

The concept of customer loyalty and creation of loyal customers in the business context is described as "creating a customer commitment to deal with a particular organization and purchasing goods and services more frequently". If loyalty is to be considered as one the control and management indices, defining and categorizing possible types of interaction with loyal customers will be crucial and will provide a basis for meeting customers' needs. Some definitions are as follows:

- Loyalty occurs when customers feel strongly that the organization is able to meet their needs in the best way, in such a way that competing organizations leave the set of customer considerations and exclusively purchase from the organization (Javanmard & Soltanzadeh, 2009).
- It is defined as deep commitment to repurchase or patronize a preferred good or service in future (Allen Broyles et al., 2011).
- It is defined as customers' desire to select a product or business from other products for meeting a particular need is called loyalty (Haghighi et al., 2003).

Definitions can be classified into three groups as follows:

1. **Trade loyalty**: Trade loyalty in which changes in customer buying behavior are taken into account, although the motivations for change may be uncertain. Since these categories of loyalty are close to

results, they are considered as the most commonly used choices by organizations (Afthinos et al., 2005).

2. **Perceptual loyalty**: Perceptual loyalty in which customers' attitudes and beliefs are key elements, but there is no evidence of its effects on purchasing. Sometimes, because attitudes and beliefs reflect possible behavioral patterns that are created in the future, they are of great importance (Liyin, 2008).

3. **Combined loyalty**: It is a combination of the two mentioned types.

   A loyal customer is someone who regularly purchases goods and services from a seller and has a positive attitude towards him; therefore, he strongly recommends his acquaintances to buy from him. Studies show that a 5% increase in customer loyalty will increase the company's profit by 25-85%; this rate is called cost of loyalty (Salari, 2004).

Service innovation

Innovation in human history has been introduced as a tool for creativity and the result of human efforts to develop meeting his needs and improve his life quality. "Innovation" originates from the Latin word "Novare", which means renewing; it is an introduction to something that has not been existed before. The study of innovation began in economics, and it can be significantly found in Schumpeter's works, although sources of Schumpeter's approach can be found in the writings of Max Weber and Sombart. Since Schumpeter, the concept of innovation has been separately deduced in various scientific narratives such as technology studies, social psychology, urban development and urban management. The attention to social dimensions has recently emerged in innovation research and topics (Cajaiba-Santana, 2014).

Service innovation is the company's ability to collect information from its customers, recognize the value of this information and exploit knowledge. Service innovation will lead to designing new services and developing service delivery systems (O'Cass and Ngo, 2011). Service innovations support companies to combine products and services in order to obtain customized solutions that lead in desirable results for specific customers or types of customers, even if it requires the integration of products and services from other vendors (Windahl and Lakemond, 2010).

Empirical background of research

Farzinfar et al. (2017) showed that corporate social responsibility has a positive and significant effect on customer's trust and satisfaction. Customer trust has a positive and significant effect on customer satisfaction and loyalty, and customer satisfaction has a positive and significant effect on customer loyalty. Khoramshahi and Faraji (2017) concluded that social responsibility of Pasargad Bank's employees has a significant and positive effect on customer loyalty. Investigating the effect of organizational social responsibility on customer loyalty, Mojudi et al. (2015) indicated that corporate social responsibility has a direct and positive effect on perceived service quality and satisfaction. The results also showed a positive relationship between satisfaction and customers' attitudinal and behavioral loyalty. This research provides results about corporate social responsibility and perceived service quality that can be used by banks' managers. Ghazizadeh et al. (2014) showed that there is a significant relationship between corporate social responsibility and customers' loyalty.

In a research titled corporate social responsibility and innovation in customer loyalty, Yeh (2015) showed that social responsibility has a positive and significant effect on customer loyalty; also, service innovation has positive effects on customer loyalty. He & Lai (2015) investigated the impact of social responsibility on brand loyalty and showed that legal and ethical responsibilities and customer loyalty are connected to each other through the bridge of functional and symbolic images. More clearly, the relationship between loyalty and customers' perceived symbolic images has been recognized more robust than the relationship with functional image. Hence, this bank can have more loyal customers by strengthening these mental structures. Tingchi et al. (2014) investigated the effect of corporate social responsibility on brand perceived quality and performance based on customer preferences. The results showed that since corporate social responsibility creates improvements in brand perceived quality, in general, more significant effects are achieved under certain conditions. It is necessary for any company which is investing in customer preferences towards their popular brand to discover and enjoy such situation.

Hypotheses and conceptual model of research

This research investigates the effect of social responsibility and banking service innovation on customer loyalty, and the reason for this is to create service innovation and deepen customer relationships to understand their own social responsibility. The practical application of this research model to other models is to provide guidance in

regard with factors affecting customer loyalty in order to enhance service innovations in the business environment so that they can create a well-known image among domestic banks based on social responsibility.

Social responsibility and customer loyalty

Service companies play a significant role in society by adopting social responsibility strategies to achieve sustainable competitive advantages in society (Nemec, 2010). Due to the inherent complexity of social responsibility, customers consider social responsibility when they decide to use a service or strengthen their relationship with the company which provides a service. At this time, social responsibility plans can provide benefits for the company by enhancing the identification and recognition of valuable corporate customers. Customers' considerations of their personal well-being may increase the impacts of widespread social activities and lead to company's efforts to develop social responsibility activities that enhance customer support (Yeh, 2015).

Service innovation and customer loyalty

The stakeholders of the company communicate with their customers and support their needs. Companies believe that these are customers who cause growth in sales and profit achievement through mutual trust. Therefore, service companies can intellectually support competencies and methods to shape customer loyalty by creating and sharing knowledge. Companies that use more innovative methods can have the ability to increase customer productivity (Yeh, 2015).
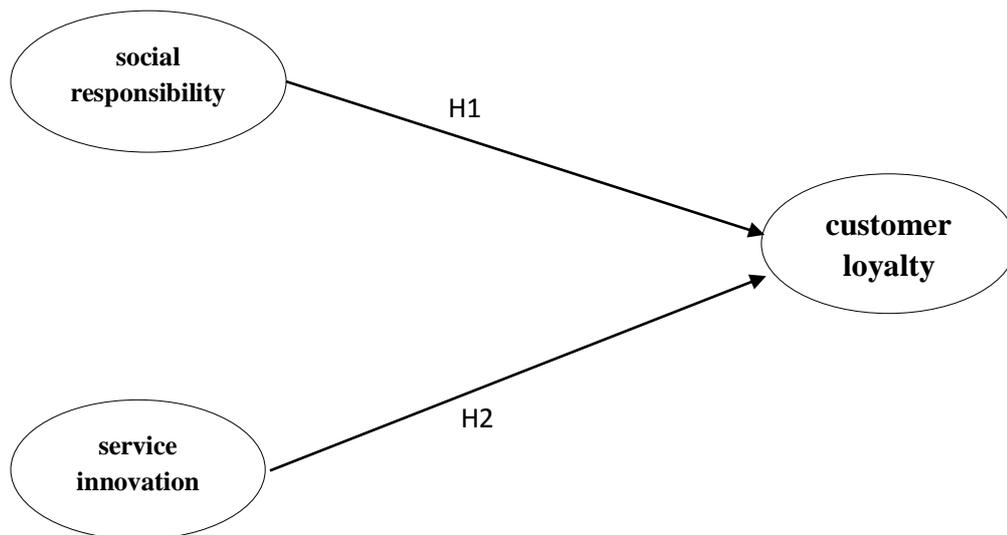

Figure 1. Conceptual model of research

Based on the conceptual model, the research hypotheses can be presented as follows:

1. Social responsibility has a direct and significant relationship with customer loyalty.
2. Service innovation has a direct and significant relationship with customer loyalty.

Research methodology

From purpose viewpoint, this is an applied research, and from data collection viewpoint, this is descriptive-survey based on a correlational analysis in which the relationship between variables is analyzed according to the purpose of research that is specifically based on structural equations. To collect data in regard with theoretical framework and related literature, library sources, articles, books and also scientific databases and electronic journals were used. Data were collected using field method through standard questionnaire derived from Yeh model (2015). Structural equations and LISREL 8.8 were applied to measure and model the relationship among variables.

The research population included customers of Tehran's Refah Bank branches, and since the research population is unlimited, the sample size was determined 384 customers using Cochran formula. Cluster sampling was used to determine the branches under investigation.

It should be note that the results of general questions related to the demographic features of respondents showed that 27.6% women and 72.4% men were among respondents. 0.5% of the respondents hold diploma degree, 15.1% associate degree, 31.77% B.A degree, and 47.13% of respondents hold M.A or Ph.D. degree, or were Ph.D. students. Also, 17.44% of the respondents have managerial occupation; 34.11% are specialists and experts; 25.52% are executives, and 21.35% are housewives. 20.57% are 30 and younger; 24.47% are 31-40 years old; 24.47% are 41-50 years old, 30.46% are 51 and older. The results related to the frequency of average income during the month showed that 25.52% of respondents earn less than 1500000 tomans; 24.68% between 1500000 and 3000000 tomans; 29.47% between 3000000 and 4500000 tomans, and 16.66% earn more than 4500000 tomans monthly.

Descriptive study of research variables

In this research, three main variables have been selected which are investigated based on a conceptual model. The description of the variables is important because the results of testing the research hypotheses are derived from the data and indicators related to these variables, which are discussed below (Table 2).

Table 2. Descriptive indicators for dimensions of research variables

Research variable	Mean	Standard deviation	Variance
Social responsibility	3.612	0.788	0.6209
Service innovation	3.53	0.778	0.605
Customer loyalty	3.57	0.827	0.683

Source: The researchers' calculations

Based on the data in Table 2, the dispersion index related to the variables is visible. The highest mean is related to the component of social responsibility with the mean of 3.612. The lowest mean is related to the component of service innovation with the mean of 3.53.

Research findings

First of all, it is necessary to examine the normality of data distribution. For this purpose, the Kolmogorov-Smirnov test has been used. The results are shown in Table 3; data distribution is normal.

Table 3. Results of Kolmogorov-Smirnov test to determine the normality of data distribution

Research variables	**Kolmogorov-Smirnov statistic**	**Significance level**	**Normality hypothesis**
Social responsibility	1.427	0.0683	Normal
Service innovation	1.305	0.0774	Normal
Customer loyalty	1.449	0.0698	Normal

Source: The researchers' calculations

Data analysis method

Testing hypotheses

Table 4 shows the results of the structural model in regard with the main and sub hypothesis of the research in the standard estimation as well as the significant coefficients.

Table 4. Results obtained from testing research hypotheses

Research hypotheses	**Path coefficient**	**t-statistic**	**Significance of relationships**
Social responsibility has a positive effect on customer loyalty.	0.45	2.33	Significant
Service innovation has a positive effect on customer	0.58	3.65	Significant

loyalty.			

Source: The researchers' calculations

According to the results shown on the Table 4, the research hypotheses can be analyzed as follows:

Hypothesis 1: Social responsibility has a significant relationship with customer loyalty. According to the findings, changes in the relationship of social responsibility with customer loyalty occur with a path coefficient of 0.45 and significance level of 2.33; therefore, the greater the social responsibility, the better the customer loyalty.

Hypothesis 2: Service innovation has a significant relationship with customer loyalty. Based on the results, this hypothesis is confirmed. According to the findings, changes in the relationship of service innovation with customer loyalty occur with a path coefficient of 0.58 and significance level of 3.65, and this hypothesis is confirmed; therefore, the greater the service innovation, the better the customer loyalty.

Table 6. Goodness of fit indices in research model

Fit index	Pattern value	Desired value	Result
GFI[1]	0.91	> 0.90	Appropriate fit
AGFI[2]	0.91	> 0.7	Appropriate fit
NFI[3]	0.91	> 0.90	Appropriate fit
IFI[4]	0.98	> 0.90	Appropriate fit
CFI[5]	0.98	> 0.90	Appropriate fit
RMSEA	0.039	> 0.05	Appropriate fit

Source: The researchers' calculations

According to the Table 6 and values of all indicators, it can be stated that the model has an appropriate fit.

Friedman test

Friedman test was used in this study to prioritize the variables of social responsibility and service innovation based on customer loyalty.

The result of the Friedman test consists of two outputs. The first one (Table 7) indicates the value of Chi-square statistic, degree of freedom and significance level based on the number of data for each variable, respectively.

Table 7. Investigating Friedman test indicators

Sample size	Degree of freedom	Chi-square statistic	Significance level
384	2	31.659	0.000

Source: The researchers' calculations

Since the significance level is less than 0.05, the null hypothesis is rejected, and the claim of rank sameness (priority) of these sub-components is not accepted.

The second output (Table 8) is a descriptive statistic that shows the mean related to the ranks of each variable.

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[1] Goodness of Fit Index

[2] Adjusted Goodness of Fit Index

[3] Normed Fit Index

[4] Incremental Fit Index

[5] Comparative Fit Index

Table 8. Investigating Friedman test indicators

Results of Friedman test		
Variable	Achieved mean	Rank
Social responsibility	3.197	2
Service innovation	3.497	1

Source: The researchers' calculations

Based on the Friedman test for ranking according to dependent variable, at 95% of confidence level, the factors affecting customer loyalty included service innovation and social responsibility which ranked 1 and 2 respectively.

Conclusion

The purpose of this study was to explain the mediating role of social responsibility and banking services innovation in customer loyalty in Tehran's Refah Bank branches. Based on the tests, the results can be summarized as follows: the first hypothesis of the research suggesting that social responsibility has a significant relationship with customer loyalty was confirmed. Farzinpour et al. (2017), Khoramshahi & Faraji (2017) as well as Yeh (2015) concluded that there is a direct and significant relationship between social responsibility and customer loyalty. Therefore, it can be said that customer-based plans in regard with social responsibility and customer support enhancement increase customers' perceptions and their positive behavior. The second hypothesis of the research suggesting that service innovation has a significant relationship with customer loyalty was also confirmed. Zarepour et al. (2010) and also Yeh (2015) concluded that there is a positive relationship between service innovation and customer loyalty. Therefore, it can be said that a distinct set of service innovation competencies is required for a successful use of customer support and loyalty. Hence, based on the research findings, managers of Tehran's Refah bank branches are suggested as follows:

- Managers should try to create a customer-support strategy based on distinct social responsibility that can respond to customer behavior, because customers strongly believe that companies should act socially towards their customers.
- Since the approval of service innovation by customers is of high-risk and the success of service innovation does not guarantee the creation of customers' loyalty, it is suggested that firstly, managers recognize the areas of more customer-participation, and then determine new methods to adapt the bank's actions with customers' needs.

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