Customer expectations of CSR, perceived service quality and brand effect in Thai retail banking

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Abstract

Purpose – This paper aims to explore how social responsibility initiatives can influence perceived service quality and brand effect from the perspective of retail banking customers in Bangkok, Thailand. The paper also aims to examine the impact of trust as a mediating variable between perceived service quality and brand effect.

Design/methodology/approach – The study is quantitative in nature, using the responses of 275 bank customers to a closed-end questionnaire administered on a face-to-face basis by trained fieldworkers. The data analysis is performed by partial least squares (PLS), a second generation statistical SEM variance-based modeling technique.

Findings – The results of the study demonstrate how corporate social responsibility (CSR) initiatives influence service quality perceptions and also examine CSR’s impact on trust and affective attitudes of customers towards their banks. The study’s hypothesized relationships were principally supported, i.e. perceived service quality is positively associated with brand effect mediated by trust. CSR initiatives play an important role in perceived service quality, which in turn, influences trust and brand effect. Finally, CSR is shown to be directly related to brand effect.

Research limitations/implications – While the results are clear and have strong salience to the retail banking industry in Thailand, applications of the findings beyond Thailand should take into account other factors such as the nature of retail banking industry, the perception, behavior and demographics of retail banking customers as well as the strategic focus of retail banking toward CSR.

Practical implications – The study provides a set of findings relating to CSR initiatives that could be readily incorporated into a bank’s corporate plan.

Originality/value – To the authors’ knowledge, their study proposes an exhaustive review of CSR activities a company could use to best match its stakeholders’ interests. Also the paper demonstrates the contribution of advanced modeling methodology to understanding key relationships in the financial services sector.

Keywords Corporate social responsibility, Banking, Perception, Brand image, Thailand

Paper type Research paper

Introduction

Luo and Bhattacharya (2006) noted that in today’s competitive service market environments, corporate social responsibility (CSR) represents a high profile notion
that has strategic importance to many companies. Although academics and business leaders have engaged in much discussion concerning the social responsibilities of business, there has been only sparse research conducted on customers’ expectations concerning the contribution of CSR to the standing of their service suppliers (Mohr et al., 2001). Answers to questions such as the influence of CSR initiatives on customer attitudes remain largely anecdotal and only partially empirically answered. Discussion concerning the relationship of CSR initiatives and positive outcomes has, however, increased in recent years (Argenti et al., 2005). Indeed, CSR has become an essential element of corporate marketing strategies (Pirch et al., 2007), often empowering corporate branding. Besides strengthening core corporate capabilities, CSR is often proposed as a means to build positive attitudes towards companies among consumers. However, in practice, there has been criticism that many companies make numerous ad hoc charitable donations, but few approach their contributions with an eye towards enhancing their brands (Cone et al., 2003).

Studies concerning the impact of customer expectations regarding CSR are even more important when competition is intensified, as firms try to capture the same group of customers with similar products and/or services. Firms could benefit more from spending on CSR activities if they understood the impact CSR can have on consumer behavior. However, research has shown that some unique characteristics (i.e. inseparability between service provider and customers or intangibility of offerings) in financial services industry can affect how a consumer evaluates a firm’s quality of products/service and the pattern of the relationship between them (Lewis and Soureli, 2006; Bejou et al., 1998). The interdependence of customer expectations toward CSR and perceived service quality (PSQ) has been reported in several studies (e.g. Garcia de los Salmones et al., 2005; Brown and Dacin, 1997). Murray and Vogel (1997) show that managers are more willing to consume from a company after exposure to information about its CSR program. Bhattacharya and Sen (2004) establish both internal (i.e. awareness, attachment and attitudes) and external outcomes (i.e. purchase, word of mouth and loyalty) of CSR activities. Additionally, in a high-involvement industry (e.g. financial services), customers perceive quality to be a function of trust (Lewis and Soureli, 2006).

This paper examines the influence of a firm’s CSR activities on customer perception of service quality and their internal outcomes such as attitudinal components of decision process. The research context of this paper is the retail banking industry in Thailand. Thailand was chosen due to a particularly strong element of homogeneity in retail banking service offerings. The authors aim to explore new strategies for firms to optimize their corporate budgets effectively, particularly in their public relations activities, which include CSR initiatives such as community sponsorships and charitable donations. CSR has become a powerful tool in building customer perceived quality and brand effect, sometimes referred to as attitudinal loyalty.

Retail banking in Thailand
During the past several decades, the global financial services sector has undergone considerable change, resulting in an intensely competitive market place (Bloemer et al., 1998). A major monetary crisis in 1997 impacted negatively on the Thai financial industry but also led to significant structural and regulatory changes. A number of finance companies were closed or transformed into small banks. Also some banks were
Deregulations by the Bank of Thailand and the Thai Ministry of Finance allowed global financial institutions to increasingly participate in the Thai market, either through strategic partnerships or 100 percent ownership of commercial banks. The majority of Thai banks engage in varying levels of CSR activity. Seemingly the level of engagement depends on firm size, larger firms tend to receive a higher level of attention and visibility from the public. This may, in turn, encourage larger firms to spend more on CSR (Stanwick and Stanwick, 1998) because larger firms’ economies of scale make CSR expenditure relatively less burdensome (McWilliams and Siegel, 2001). However, the effectiveness of CSR is not necessarily measured by the size of budget allocated, but rather by the increase in positive and favorable attitude toward the brand/organization.

This paper, therefore, aims to address the potential influence of CSR initiatives in relation to the perception of Thai bank service quality, and also to assess CSR’s contribution to the development of trust and affective attitudinal evaluation in the retail banking environment.

**Literature review and hypothesis development**

**CSR**

CSR is referred to as pro-social corporate endeavors Murray and Vogel (1997) or corporate social performance (Turban and Greening, 1997). It also has received increasing attention by scholars (Berens et al., 2007; Chapple and Moon, 2005; Lichtenstein et al., 2004; Luo and Bhattacharya, 2006; McWilliams and Siegel, 2001; Pirch et al., 2007; Garcia de los Salmones et al., 2005; Sen and Bhattacharya, 2001). More evidence can be found in the business world. For example, most companies’ web sites include CSR reports (Ginsberg and Bloom, 2004). One reason is the increasing acceptance of the positive impact of CSR on consumer behavior (Sen and Bhattacharya, 2001). In Thailand, a similar trend is evident, albeit at a slower pace than in the West. CSR-related activities such as philanthropic donations made by firms, especially big firms, are publicized in the media and the companies’ own communications and reports. Studies of CSR issues relating to the Thai financial industry include Kuasirikun and Sherer (2004), Ratanajongkol et al. (2006) and Kraisornsuthasinee and Swierczek (2006), who report that customer awareness of firms’ CSR engagements in Thailand is still relatively low.

As CSR is such a broad term (Garcia de los Salmones et al., 2005), a variety of meanings have been ascribed to this concept (Mohr et al., 2001). Traditional definition of CSR is conceptualized as “The managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organization” (Davis and Blomstrom, 1975, p. 6). Brown and Dacin (1997, p. 68) define CSR in a larger and societal view as “the company’s status and activities with respect to its perceived societal obligation”. Carroll (1979, 1991) defines CSR as “the social responsibility of business (which) encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations”. This definition of CSR has become one of the most widely accepted and used (Mohr et al., 2001; Garcia de los Salmones et al., 2005). There has been discussion as to how CSR should be defined by firms. If CSR is defined in a purely economic term, this means that corporations may focus
principally on revenue generation. On the other hand, stakeholder theory views CSR more generally as firms having responsibilities towards society. Specifically, they are about individuals or groups that may be directly or indirectly affected by their activity (Carroll, 1999, 1991; McWilliams and Siegel, 2001; Mintzberg et al., 2002; Garcia de los Salmones et al., 2005).

The domains of socially responsible behavior are diverse (Sen and Bhattacharya, 2001). Proposed dimensions in past studies include: environment, personnel and employee support, community support, equal opportunity, products, corporate philanthropy, disclosure of social information, representation of women, and representation of minorities (Carroll, 1999; Owen and Scherer, 1993; Sen and Bhattacharya, 2001). CSR activities can range from simple philanthropic involvement such as charitable contributions to more strategically designed philanthropy, cause-related marketing (Cone et al., 2003), and green marketing (Cone et al., 2003; Hart, 1997).

Stanwick and Stanwick (1998) and Pava and Krausz (1996) discuss the impact of CSR on the financial performance of firms. Garcia de los Salmones et al. (2005) found that consumer perceptions of CSR behavior can be important and have direct consequences for their valuation of the service and PSQ. Several marketing studies found that CSR can positively affect consumers’ attitudes towards the firm and its products (Bhattacharya and Sen, 2003; Brown and Dacin, 1997; Folks and Kamins, 1999; Lichtenstein et al., 2004; Luo and Bhattacharya, 2006; McWilliams and Siegel, 2001; Mohr et al., 2001). Bhattacharya and Sen (2004) found that CSR activities influence consumer behavior such as purchase, loyalty and word of mouth advocacy.

Most studies incorporating the service quality construct do so in a multidimensional form (Chiou and Droge, 2006; Dabholkar et al., 1996; Gournaris et al., 2003; Parasuraman et al., 1988). Given the fact that services are intangible, heterogeneous, perishable, and inseparable in terms of production and consumption, the criteria customers use to evaluate service quality are complex and difficult to determine precisely (Athanassopoulos et al., 2001). Scholars generally recognize that customer perception of quality is based on one or more cues (Andreassen and Lindestad, 1998). Customers do not assess service quality only on its outcome (Kotler, 2008). The well-known PSQ measurement, SERVQUAL, which is a construct of 22 items representing five dimensions: tangibles, reliability, responsiveness, assurance, and empathy, was constructed by Parasuraman et al. (1988).

In addition to the SERVQUAL model, the attributes of search (i.e. before service consumption takes place), experience (i.e. when the actual service experience occurs), and credence (i.e. the financial stability of the firm) were proposed by Berry (1983) as an assessment of service quality that customers use (Athanassopoulos et al., 2001). Grönroos (1995) proposed two dimensions: technical performance, which refers to delivery of the core service (what the customer is buying); and functional performance, the customer’s perception of the service delivery process (how the service is delivered).

The operationalization of the service quality construct varies depending upon its objectives, the industry under investigation and the status of the economy of the country, to mention a few. Studies related to the operationalization of service quality in banking have been largely based on the SERVQUAL scale. Gournaris et al. (2003)
employ a multi-item measure in their study of the retail banking industry of Greece. Their measurement instrument includes the five dimensions of Parasuraman et al.’s SERVQUAL, and additional items capturing industry-specific dimensions. Thus, Gournaris et al.’s (2003) PSQ construct includes six dimensions: staff competence, service reliability, physical evidence, convenience, product innovation, and value for money.

Trust
The nature of a business is one reason for variations in dimensions of service quality and their relationship patterns. In a high-involvement market such as financial services, service quality is often regarded to have an indirect relationship with other constructs, via variables such as trust (Chiou and Droge, 2006; Lewis and Soureli, 2006).

Trust is not only an attitude toward another person, but it may also be directed toward an intangible object, such as a brand (Delgado-Ballester and Munuera-Aleman, 2001). Trust is a crucial factor in the development and maintenance of relationships (e.g. Bejou et al., 1998; Chiou and Droge, 2006; Doney and Cannon, 1997; Morgan and Hunt, 1994). Moorman et al. (1993) consider trust as a uni-dimensional construct. Doney and Cannon (1997) measure trust in terms of the credibility (based on a partner’s expertise and reliability) and benevolence (focused on the motives and intentions of the exchange partner). A similar approach was taken by Delgado-Ballester and Munuera-Aleman (2001). Sirdeshmukh et al. (2002) conceptualized trust as a multidimensional construct encompassing competence and benevolence. Hess (1995) proposed a measure of trust encompassing three dimensions: altruism, honesty, and reliability.

The consequences of trust have been found to have positive outcomes such as satisfaction (Bejou et al., 1998), commitment (Chiou and Droge, 2006; Morgan and Hunt, 1994), value (Nijssen et al., 2003), price tolerance (Delgado-Ballester and Munuera-Aleman, 2001), long-term orientation in the relationship (Ganesan, 1994), brand effect (Chaudhuri and Holbrook, 2001) and loyalty (Lewis and Soureli, 2006; Nijssen et al., 2003). In the service sector, trust in the service provider’s reliability and integrity has shown to be important and related to the emotional nature of customer loyalty (Chiou and Droge, 2006; Lewis and Soureli, 2006). In retailing, Berry (1983) stressed that trust is the basis of loyalty. Trust is likely to be particularly significant in the financial service sector given both the nature of utilitarian value and the complexity of certain service offerings. Bejou et al. (1998) highlighted the importance of trust in a bank’s reliability and integrity and also proposed that trust in a financial provider and its personnel is a prerequisite for loyalty.

CSR and PSQ
Studies have found a link between CSR initiatives and PSQ. Rummell (1999) uses Body Shop to illustrate that its use of natural ingredients and environmentally friendly practices has had positive associations with consumer perception of its products. Sen and Bhattacharyya (2001) found that consumers are sensitive to the implications of CSR activities and the company’s ability to exceed expectations. Garcia de los Salmones et al. (2005), for example, found that consumers’ perception of CSR behavior can have direct consequences in their assessment of the service and PSQ. The level of engagement in certain CSR activities, in which customers expect their service
providers to become engaged, are proposed to influence PSQ. Therefore, the following relationships are hypothesized:

**H1.** CSR expectation is positively related to PSQ.

**PSQ and trust**
A number of studies confirm the mediating role of trust (Bejou et al., 1998; Chiou and Droge, 2006; Ganesan, 1994; Nijssen et al., 2003; Sirdeshmukh et al., 2002). Chiou and Droge (2006) reported an indirect impact of service quality and loyalty mediated by trust. Trust has been found to have relationships with constructs such as commitment, reputation, and brand effect (Bejou et al., 1998; Chaudhuri and Holbrook, 2001; Chiou and Droge, 2006; Morgan and Hunt, 1994). Trust is treated as a cognitive, rather than affective, construct (Singh and Sirdeshmukh, 2000). Trust leads to loyalty because it creates exchange relationships that are highly valued (Morgan and Hunt, 1994). Bejou et al. (1998) reported the importance of trust in a bank’s image for reliability. Therefore, PSQ, which is a construct related to core abilities of the company, is hypothesized to affect trust:

**H2.** PSQ is positively related to trust.

**Brand effect**
Brand effect is conceptualized as a determinant of loyalty and customer commitment (Chaudhuri and Holbrook, 2001; Dick and Basu, 1994; Fournier, 1998; Gundlach et al., 1995). Chaudhuri and Holbrook (2001) defined brand effect as “a brand’s potential to elicit a positive emotional response in the average consumer as a result of its use.” Brand effect can also be expressed as a strong emotional tie with the company or the service provider (Chaudhuri and Holbrook, 2001). Other studies have shown that brand effect may derive from greater trust in the reliability of a brand or from more favorable affect when customers use the brand.

**CSR and brand effect**
Several marketing studies have found that CSR can positively affect consumers’ attitudes towards the firm and its products (Bhattacharya and Sen, 2003; Brown and Dacin, 1997; Folks and Kamins, 1999; Lichtenstein et al., 2004; Luo and Bhattacharya, 2006; McWilliams and Siegel, 2001; Mohr et al., 2001). CSR has an indirect effect with affective variables such as satisfaction, image, and reputation (Bloemer et al., 1998; Garcia de los Salmones et al., 2005). Some positive consequences of the relationship between CSR and brand effect are employee commitment (Cone et al., 2003; Fombrun and Shanley, 1990; Ginsberg and Bloom, 2004; McWilliams and Siegel, 2001; Turban and Greening, 1997), market share (Owen and Scherer, 1993), image and brand (Brown and Dacin, 1997; Cone et al., 2003; Folks and Kamins, 1999; McWilliams and Siegel, 2001), and customer loyalty (Berenst et al., 2007; Cone et al., 2003; Lichtenstein et al., 2004; Garcia de los Salmones et al., 2005; Sen and Bhattacharya, 2001).

**H3.** CSR expectation is positively related to brand effect.

**Trust and brand effect**
By definition, trust is viewed to be a cognitive-related construct involving a process that is well thought out and carefully considered (Chiou and Droge, 2006; Singh and
Sirdeshmukh, 2000), rather than an emotional one. Customer expectation, in a general sense, involves some degree of uncertainty of outcome, which gives rise to negative emotion and disappointment when expectations are not met (Lazarus, 2006). CSR expectation is not hypothesized to have a direct relationship with the cognitive concept of trust. The CSR expectation is rather related to affective variables such as brand effect which is “more spontaneous, more immediate, and less deliberately reasoned in nature” (Chaudhuri and Holbrook, 2001).

Gundlach et al. (1995) suggested that strong and positive affective responses will be associated with high levels of brand commitment. Similarly, Dick and Basu (1994) proposed that brand loyalty should be greater under conditions of more positive emotional mood or affect. In general, brands that are higher in affect are purchased more often and should generate greater attitudinal commitment. Few studies have explicitly conceptualized and empirically tested the brand effect construct. Hence:

\(H4\). Trust is positively related to brand effect.

**Conceptual model**

Based on a review of the relevant literature and hypothesized relationships, Figure 1 illustrates the proposed conceptual model.

**Research methodology**

**Measurement and scaling**

CSR. The domains of socially responsible behavior are diverse (Sen and Bhattacharya, 2001). However, the five most important items of CSR activities suggested by Owen and Scherer (1993) are: environmental pollution, corporate philanthropy, disclosure of social information, representation of women, and representation of minorities. The managerial accounting firm Ernst & Ernst developed a set of “social responsibility disclosures”, which includes six categories of CSR, namely environment, equal opportunity, personnel, community involvement, products, and others (Carroll, 1999). Carroll (1979, 1991) advanced a well-recognized CSR framework, which posits that the social responsibility of the business sector encompasses economic, legal, ethical, and discretionary (philanthropic responsibility) expectations that society has of organizations. This paper adopts three elements of Carroll’s CSR framework which deal with economic, ethical, and philanthropic dimensions.

Figure 1. Proposed conceptual framework
Following Churchill’s (1979) famous paper on scale development, together with the authors’ direct experience in the industry, 15 socially responsible activities appropriate to Thai retail banking were identified and tested to ensure their representation of the economic, ethical and philanthropic dimensions of a CSR framework. Instead of relying on consumers’ recall of a bank’s socially responsible activities, respondents were asked to indicate their levels of expectation of different CSR activities to be engaged by their main bank. The question asked is “What are your expectations for your bank’s engagement in the following social activities?” A high score indicates a strong expectation that the bank should engage in a particular type of CSR activity (5 = very high expectation). The CSR expectation scores are proxies for what might happen if a bank already used these CSR activities as elements of its corporate strategic plan.

PSQ. PSQ is widely accepted as a multidimensional construct, but it has been operationalized with different components depending upon type of service, industry, and the specific-context under investigation in each study (Angur et al., 1999; Chiou and Droge, 2006; Cronin and Taylor, 1992). SERVQUAL (Parasuraman et al., 1988, 1985) and SERVPERF (Cronin and Taylor, 1992) are the two most commonly used measurements of PSQ. This paper, however, adopted 15 items from Gournaris et al.’s (2003) measurement scale, which is an extension of Parasuraman et al.’s (1991) SERVQUAL, developed specifically for the banking industry. Gournaris et al.’s (2003) PSQ scale measures employee competence, bank reliability, product innovativeness, value for money, physical evidence, and proximity-convenience, all on a five-point Likert scale.

Trust. Trust has been conceptualized as either uni-dimensional or multidimensional. This paper adopts an eight-item measurement scale that has been used in several studies (e.g. Chaudhuri and Holbrook, 2001; Delgado-Ballester and Munuera-Aleman, 2001; Gounaris and Venetis, 2002; Hess, 1995; Sirdeshmukh et al., 2002). All items were measured on a five-point Likert scale.

Brand effect. Brand effect is defined by Chaudhuri and Holbrook (2001) as the potential of a brand or a service provider to elicit a positive emotional response in a customer. We measured brand effect using a two-item scale on a five-point Likert scale also developed by Chaudhuri and Holbrook (2001).

Data collection and sampling procedure
The questionnaire was originally developed in English and was translated into Thai. It was then back-translated by a second bilingual person to ensure greater equivalence of meaning. Both translators were professionals in their fields. The first draft of the questionnaire was pre-tested for comprehension among ten graduate marketing students with general credits in banking subject and bank employees who were academically and professionally competent to participate in this pretest. Some participants were fully familiar with the role of CSR in their banks’ business strategies. The reliability of measurements was assessed using Cronbach’s alphas. A pilot survey based on 63 usable questionnaires was then conducted. Validity and reliability tests were performed to further refine measurements. Any insignificant indicators were removed and some modifications were made to increase the clarity of the questionnaire in the final study.

Retail banking customers residing in Bangkok, the capital of Thailand with a population of 10 million, represented the study’s target sample. This study did not
focus on customers who patronize any one particular bank. A convenience sampling technique was selected due to its cost and time efficiency. The final questionnaire was administered by three trained research assistants, who distributed the document in the central business district of Bangkok. Respondents were personally approached at shopping malls, office buildings, entertainment establishments and other high-traffic locations. The research assistants were instructed to administer a minimum of 15 questionnaires at each location. This restriction was set to avoid the possibility of receiving responses that were related disproportionately to a small number of banks because of the effect of payroll services used by their employers.

A sample of 300 was initially recruited. The usable 275 respondents or approximately 92 percent were included in the main study; 40 percent were male and 60 percent were female. The majority of respondents, or 36 percent, were 25-34 years old. Also, most respondents, or 68 percent, had some post secondary education. Full-time employees, which included office workers, government officers and state enterprise employees, represented 60 percent of the sample, while 16 percent were self-employed. These well-educated officers of private and public institutions were targeted in the belief that CSR issues become more important to the middle class than other segments of society.

Partial least squares (PLS), a path modeling analytical approach was chosen for data analysis. The minimum sample size requirement recommended by Cohen (1988) and Barclay et al. (1995) should be ten times the largest number of reflective indicators or structured paths directed to a reflective construct used in the model (Chin, 1998). In this study, the largest number of paths directed to a construct was 15 for the PSQ construct; thus, the minimum sample size required was 150 cases. However, a sample size as small as 50 cases can be used to conduct PLS analysis, while Hair et al. (2010) suggest that a sample size of 200 is an appropriate size with which to test a PLS model.

Scale dimensionality and validation
In order to test dimensionality of the three latent constructs; CSR expectation, PSQ and trust, two statistical analyses, namely exploratory and confirmatory factor analyses, were employed.

Exploratory factor analysis. Exploratory factor analysis (EFA) was used to conduct a preliminary examination of the structure of the data as well as to achieve data reduction (Hair et al., 2010). Since the multi-item constructs used in this paper were taken from existing marketing scales that are commonly found to have clean and distinct dimensionality, the authors did not perform a pooled-sample factor analysis for all items belonging to each of latent constructs. The elimination of cross-loading items for each factor-analyzed construct is common and necessary because the primary objective of EFA is to “define the underlying structure among the variables” (Hair et al., 2010, p. 94). Moreover, the authors wished to have a strong measurement model for the confirmatory factor analysis.

Because of some cross-loading, five items of the PSQ scale and one item of the CSR scale were eliminated during the process of data reduction. The trust construct revealed two very distinct dimensions, while brand effect was found to be unidimensional. The EFA results showed the percentages of variance explained ranged from 61.95-87.87 percent which is larger than the 60 percent threshold recommended by Hair et al. (2010). The high Cronbach’s alphas of indicators belonging
to each dimension ($\alpha = 0.857$ to $\alpha = 0.905$) indicate high internal consistency and scale reliability (Anderson and Gerbing, 1988) The dimensions extracted from each latent construct are presented in Table I.

**Confirmatory factor analysis.** Confirmatory factor analysis (CFA) was performed to validate scale dimensionality of the remaining EFA items. Several goodness-of-fit indices were used to report convergent and discriminant validity, as well as the reliability properties of the measures to identify internal consistency and adequate fit of scale items. To assess the fit of the observed variables with the latent variables, overall model fit indices were evaluated. CFA cannot be performed on constructs which contain fewer than three indicators. Therefore, the brand effect result is not presented.

The 14 CSR items revealed four dimensions, according to the EFA results. The remaining ten-item battery measuring the PSQ construct yielded three dimensions based on the EFA results. The ten-item model indicated a poor fit with a RMSEA value marginally above the 0.08 threshold, and a large $\chi^2/df$ ratio. The item “convenient location” (psqual8) with the lowest SMC was eliminated which resulted in improved goodness-of-fit indices. The two factors of the trust scale revealed a good fit. A summary of the CFA results is presented in Table II.

**Data analysis and results**

PLS is a variance-based structural equation modeling (SEM) technique that allows simultaneous evaluation of all construct paths. PLS is an iterative procedure combining principal components analysis relating measures to constructs, and path analysis permitting the construction of a system of interrelated constructs. Among PLS’s major advantages are an ability to produce consistent parameter estimates for complex causal models and robustness to violations of multivariate normality (Fornell and Cha, 1994; Hulland, 1999). PLS is suitable for prediction purposes, and does not require the same level of satisfaction of measurement properties in order to yield results for a structural model, particularly traditional SEM.

**Measurement models results**

Prior to assessing the structural model, the validation of the measurement models is required. The convergent and discriminant validity of the measurement models of the exogenous and endogenous latent variables included in this paper were tested.

The authors applied a second-order factor model approach (Chin, 1998; Lohmöller, 1989), whereby the first-order model combines relevant indicators of each dimension to create the second-order model, with the composite dimensions reflecting the given latent constructs. Then these dimensions derived from the second-order factor model were used in the structural model. The factor loadings and their critical ratios for each dimension shown in Table III indicate their substantially strong explanatory power in relation to the latent constructs.

Discriminant validity can be verified if the correlation between latent constructs is not higher than their Cronbach’s alphas (Gaski and Nevin, 1985; O’Cass, 2002; Patterson and Smith, 2003). The construct correlations of this paper were smaller than their respective reliabilities as shown in Table IV. Therefore, discriminant validity was established. Convergent validity refers to the principle that the items of
<table>
<thead>
<tr>
<th>Latent construct</th>
<th>No. of items</th>
<th>Examples of items</th>
<th>Variance explained %</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR expectation Community support</td>
<td>7</td>
<td>Donate to charities Help the disadvantaged Disaster relief Anti drugs Provide education scholarships</td>
<td>75.26 0.905</td>
<td></td>
</tr>
<tr>
<td>Employee relations</td>
<td>4</td>
<td>Support safe workplace Support employee’s family values Offer fair compensation</td>
<td>15.33 0.854</td>
<td></td>
</tr>
<tr>
<td>Product and service-oriented</td>
<td>2</td>
<td>Provide quality products and services Focus on customer satisfaction</td>
<td>8.47 0.758</td>
<td></td>
</tr>
<tr>
<td>Environment support</td>
<td>3</td>
<td>Support forest preservation Support environment preservation Support water resource preservation</td>
<td>6.67 0.917</td>
<td></td>
</tr>
<tr>
<td>Perceived service quality Staff competence and service reliability</td>
<td>4</td>
<td>Product knowledge Prompt service No errors Reliable</td>
<td>61.95 0.857</td>
<td></td>
</tr>
<tr>
<td>Convenience and product</td>
<td>4</td>
<td>Convenient location Convenient hours Product variety New products</td>
<td>11.07 0.755</td>
<td></td>
</tr>
<tr>
<td>Physical evidence</td>
<td>2</td>
<td>Friendly staff Warm atmosphere</td>
<td>8.35 0.816</td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>3</td>
<td>Your bank is genuinely committed to your satisfaction You feel that your bank shows you enough consideration Your bank treats you fairly and justly</td>
<td>69.53 0.886</td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td>5</td>
<td>Your bank has a very good reputation Your bank is of high integrity Your bank is very reliable Your bank is very competent All things considered, you trust your bank</td>
<td>13.59 0.869</td>
<td></td>
</tr>
<tr>
<td>Credibility</td>
<td>2</td>
<td>You are happy being a customer of your bank You feel good using this bank as your main bank</td>
<td>87.87 0.860</td>
<td></td>
</tr>
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</table>

Table I. Summary of EFA results
### Table II. Summary of CFA results

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of items</th>
<th>Mean</th>
<th>SD</th>
<th>Loadings</th>
<th>Critical ratio</th>
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<tbody>
<tr>
<td><strong>CSR expectation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All 14 items included</td>
<td>185.119</td>
<td>51</td>
<td>0.000</td>
<td>0.911</td>
<td>0.869</td>
</tr>
<tr>
<td>csrexp 15 removed</td>
<td>137.640</td>
<td>59</td>
<td>0.000</td>
<td>0.928</td>
<td>0.889</td>
</tr>
<tr>
<td><strong>Perceived service quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All ten items included</td>
<td>88.524</td>
<td>32</td>
<td>0.000</td>
<td>0.938</td>
<td>0.894</td>
</tr>
<tr>
<td>psqual8 removed</td>
<td>50.236</td>
<td>24</td>
<td>0.000</td>
<td>0.961</td>
<td>0.927</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All eight items included</td>
<td>37.123</td>
<td>19</td>
<td>0.008</td>
<td>0.967</td>
<td>0.938</td>
</tr>
</tbody>
</table>

### Table III. Measurement models results

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of items</th>
<th>Mean</th>
<th>SD</th>
<th>Loadings</th>
<th>Critical ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSR expectation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community support</td>
<td>5</td>
<td>4.056</td>
<td>0.695</td>
<td>0.785</td>
<td>16.784</td>
</tr>
<tr>
<td>Employee relations</td>
<td>3</td>
<td>3.964</td>
<td>0.741</td>
<td>0.786</td>
<td>28.277</td>
</tr>
<tr>
<td>Product and service-oriented</td>
<td>2</td>
<td>4.192</td>
<td>0.668</td>
<td>0.749</td>
<td>18.973</td>
</tr>
<tr>
<td>Environment support</td>
<td>3</td>
<td>3.698</td>
<td>0.749</td>
<td>0.793</td>
<td>25.307</td>
</tr>
<tr>
<td><strong>Perceived service quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff competence and service reliability</td>
<td>4</td>
<td>3.877</td>
<td>0.603</td>
<td>0.879</td>
<td>52.356</td>
</tr>
<tr>
<td>Convenience and product</td>
<td>3</td>
<td>3.597</td>
<td>0.711</td>
<td>0.815</td>
<td>24.579</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>2</td>
<td>3.696</td>
<td>0.771</td>
<td>0.796</td>
<td>22.236</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td>3</td>
<td>3.800</td>
<td>0.688</td>
<td>0.883</td>
<td>46.514</td>
</tr>
<tr>
<td>Credibility</td>
<td>5</td>
<td>4.043</td>
<td>0.559</td>
<td>0.904</td>
<td>70.791</td>
</tr>
</tbody>
</table>

### Table IV. Latent construct correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>Brand effect</th>
<th>CSR</th>
<th>PSQ</th>
<th>Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand effect</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>0.434</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSQ</td>
<td>0.578</td>
<td>0.379</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>0.676</td>
<td>0.357</td>
<td>0.657</td>
<td>1</td>
</tr>
</tbody>
</table>
a construct be at least moderately correlated (Nunally, 1978). The PLS approach assesses the convergent validity through average variance explained (AVE) which means that the variance explained should be greater than the unexplained variance. In other words, AVE should be greater than 0.500 (Fornell and Larcker, 1981). This study has AVEs ranging from 0.559 to 0.878, indicating that the indicators converged well within their constructs. Table III also presents the results of the measurement models.

**Hypothesis testing**

In order to test the hypothesized relationships among the latent constructs, multiple indices which are characterized by aspects such as their quality, sufficiency to explain the data, congruence with systematic expectations and precision are needed (Lohmöller, 1989). Those indices for predictive relevance of the model include $R^2$, average variance accounted for (AVA), regression weights or path coefficients (Fornell and Cha, 1994). These indices provide evidence for the existence of the relationships rather than standard statistical tests (Falk and Miller, 1992).

The AVA for the endogenous variables is simply the mean $R^2$ of the model, which equals 0.325, and the individual $R^2$s are greater than the recommended 0.10 (Falk and Miller, 1992) for all of the predicted variables. As all of these $R^2$ are larger than the recommended levels, it is appropriate to examine the significance of the paths associated with these variables. The path coefficients ($\beta$) are all significant with a bootstrapping critical ratio greater than 1.96 ($p < 0.05$). Figure 2 illustrates the graphical output and results of data analysis. Table V summarizes the results of hypothesis testing.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Independent</th>
<th>Dependent</th>
<th>$\beta$</th>
<th>CR</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H1$</td>
<td>CSR</td>
<td>Perceived service quality</td>
<td>0.380</td>
<td>5.552</td>
<td>0.143</td>
</tr>
<tr>
<td>$H2$</td>
<td>Perceived service quality</td>
<td>Trust</td>
<td>0.659</td>
<td>8.722</td>
<td>0.434</td>
</tr>
<tr>
<td>$H3$</td>
<td>CSR</td>
<td>Brand effect</td>
<td>0.221</td>
<td>4.108</td>
<td>Supported</td>
</tr>
<tr>
<td>$H4$</td>
<td>Trust</td>
<td>Brand effect</td>
<td>0.597</td>
<td>14.842</td>
<td>0.498</td>
</tr>
</tbody>
</table>

**Table V.**

Results of hypothesis testing based on PLS analysis

**Note:** Average variance accounted for (AVA) = 0.325
Results and managerial implications

The four hypothesized relationships were supported by the data analysis. Customer expectation of CSR activities was found to positively influence the perception of service quality ($B = 0.380$, $CR = 5.522$), which in turn, resulted in customers developing trust ($B = 0.659$, $CR = 8.722$) and affective attitudes ($B = 0.597$, $CR = 14.842$) toward the banks. The significant path relationships in this paper are in line with earlier research studies. For example, Garcia de los Salmones et al. (2005) report that CSR is positively related to PSQ. The association between PSQ and trust is also demonstrated in the studies of Chiou and Droge (2006) and Lewis and Soureli (2006). The trust and brand effect link is supported by Chaudhuri and Holbrook (2001). A positive relationship between CSR, PSQ, trust and brand effect suggests several managerial implications.

First, CSR positively affects consumer attitudes toward a company and the quality of its service offerings. An appropriate program of CSR activities tends to enhance the likelihood of positive perception of banks’ service quality. Additionally, Thai banks can utilize the CSR initiatives to help increase customers’ positive attitudes. Two dimensions of CSR, product-service orientation (e.g. providing quality products and services and focusing on customer satisfaction) and community support (e.g. donating to charities, granting scholarships, helping with disadvantaged or with disaster relief), have higher mean scores compared to the other two dimensions of CSR (see Table III). Organizations should ensure that these two activities are communicated well to the public through various means such as public relations and advertising campaigns.

Second, the relationship between PSQ and trust confirms the significance of trust in a high-involvement service context, such as retail banking. For companies to develop strategies to build both benevolence and credibility, the two dimensions of trust, they should also take into account the different impact of each of the PSQ elements. In order to achieve this objective, the authors performed two multiple regression models between the two dimensions of trust as dependent variables and three dimensions of PSQ as independent variables (see Table VI for multiple regression results). Benevolent trust may be built from staff competence and service reliability, physical evidence and convenient location/hours and product variety, in the order of the strength of the standardized beta coefficients. Only staff competence and service reliability and convenient location/hours and product variety are important in building credibility.

### Table VI.

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Standardized coefficients</th>
<th>t-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equation 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff competence and service reliability</td>
<td>0.322</td>
<td>5.149</td>
<td>0.000</td>
</tr>
<tr>
<td>Convenience and product</td>
<td>0.143</td>
<td>2.398</td>
<td>0.017</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>0.250</td>
<td>4.143</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Equation 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff competence and service reliability</td>
<td>0.429</td>
<td>6.901</td>
<td>0.000</td>
</tr>
<tr>
<td>Convenience and product</td>
<td>0.217</td>
<td>3.653</td>
<td>0.000</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>0.048</td>
<td>0.799</td>
<td>ns</td>
</tr>
</tbody>
</table>

Notes: $^aR^2 = 0.358$, Adjusted $R^2 = 0.351$; $^b$Dependent variable: benevolence; $^cR^2 = 0.365$, Adjusted $R^2 = 0.358$; $^d$Dependent variable: credibility
Third, trust as a crucial factor in the development and maintenance of relationships is widely established in the field of marketing strategy (e.g. Chaudhuri and Holbrook, 2001; Chiu and Droge, 2006; Doney and Cannon, 1997; Moorman et al., 1993; Morgan and Hunt, 1994; Sirdeshmukh et al., 2002). Banks can increase their customers’ positive affect by building and sustaining their credible reputation such as being reliability, competence and having integrity in business conduct.

**Conclusion**

Global retail banking represents an industry characterized by declining differentiation of offerings, resulting in the change of banks to focus on less tangible and less easy-to-imitate determinants of customer commitment. In addition, studies suggest that in markets where the number of products/services available makes it difficult to differentiate one brand from another, all other things being relatively equal, a company’s level of social responsibility can actually attract customers (McWilliams and Siegel, 2001; Owen and Scherer, 1993).

It is important that organizations spend the resources allocated to CSR initiatives in ways that yield optimum benefits to society as well as to their stakeholders such as customers, employees, investors, supply chain associates, strategic alliances, communities, as well as governments (Bhattacharya et al., 2009; Post et al., 2002; Sen et al., 2006). When engaging in appropriate CSR initiatives, firms tend to increase their potential to gain positive perception of their service quality and more favorable attitudes among the company’s stakeholders. Moreover, customers tend to trust organizations as a result of positive perception towards quality of products/services they offer, rather than the CSR activities.

Possible future research could be predicated on our understanding that Thai retail banking is an industry in which products/services differentiation is limited. As this study was conducted in the context of Thai retail banking among a middle-class population, future studies may wish to test the proposed relationship in other industries and even in other countries. Organizations planning to incorporate or to increase their social responsibility activity should develop measures of the economic or non-economic returns on their investment in these philanthropic activities. This measurement is a crucial component to help managers and organizations make decisions concerning the activities they should engage in.

**References**


Further reading

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