

# The Effect of External CSR on Customer Loyalty in Nepalese Banking Sector: *Mediating Roles of Reputation, Satisfaction, and Trust*

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## Abstract

Corporate Social Responsibility (CSR) is increasingly practised, with companies not only prioritizing profit growth but also contributing to society. Thus, this study examines the impact of external CSR on customer loyalty in Nepal's banking sector, considering customer satisfaction, trust, and corporate reputation as mediating variables. This study uses explanatory research design, and data were collected from 403 bank's customers in the Kathmandu Valley via Kobo Toolbox. Structural equation modelling (SEM) was applied to analyse relationships among the study variables. The results indicate that external CSR significantly enhances corporate reputation and customer satisfaction but has no direct impact on customer loyalty or trust. However, customer satisfaction positively influences trust. A key finding reveals that corporate reputation, customer satisfaction, and trust mediate the relationship between external CSR and customer loyalty. Additionally, awareness of CSR initiatives in the locality remains low. Respondents emphasised that banks should support local development by collaborating with municipalities to establish public amenities such as chautara (sitting areas), taps, and road maintenance. These insights help enhance customer loyalty and CSR effectiveness in Nepal's banking sector.

**Keywords:** corporate reputation, customer loyalty, customer satisfaction, customer trust, external CSR

**Cite as:** Danuwar, R.K., Chapagain, B.R., Mahat, S., & Paudel, U.R.(2025). The effect of external CSR on consumer loyalty in Nepalese banking sector: Mediating roles of reputation, satisfaction, and trust. *Journal of Business and Social Sciences Research*, 10(1) 115-140. <http://doi.org/10.3126/jbssr.v10i1.80313>

## INTRODUCTION AND STUDY OBJECTIVES

Business and society are interdependent (Bartosch & Lohmeyer, 2025, Lehtimäki et

al., 2024; Wirba, 2024). The behaviour of different stakeholders including customers is influenced by business policies and practices. Responsible business practices, such as corporate social responsibility, in today's

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business world are considered a strategic tool for addressing negative environmental externalities and promoting social good (Barlas et al., 2023; Falck & Heblich, 2007; Islam et al., 2021; Tylżanowski et al., 2023). Therefore, CSR proponents are asking companies to focus on a wide range of issues, including environmental issues, social issues, and economic issues (Bidari & Djajadikerta, 2020; Kallmuenzer et al., 2023; Mamo et al., 2023). Research suggests that a company's involvement in CSR efforts influences stakeholders' overall perception to the company (Hur et al., 2020; Mamo et al., 2023; Schaefer et al., 2020).

Su and Swanson (2019) and Leclercq-Machado et al. (2022) describe organisational trust as the willingness to rely on another party, expecting them to act in a way that aligns with trust, regardless of the ability to monitor or control their actions. When customers have trust in the organisation it leads to organisation loyalty (Barlas et al., 2023), and it is due to the organisation's survival and achievement (Shabbir et al., 2018; Tan et al., 2022). Various CSR efforts, such as the organisation's environmental impact and human resource management, can improve customer loyalty and performance (Jermisittiparsert et al., 2019). CSR has a direct impact on customer satisfaction, and a good customer experience usually leads to increased customer loyalty (Lee, 2019).

External CSR encompasses the actions firms take to satisfy customers or prospective customers, often to increase profits by winning over new customers. It involves strategic actions that address negative external environmental impacts, recognising the influence of business operations on the external environment, societal norms, and customer behaviour. When customers

perceive a strong commitment to external CSR from a company, it tends to foster a tendency towards loyalty boosterism (Hur et al., 2019). External CSR activities contribute strategically to customer loyalty through two key mechanisms. Firstly, these activities establish a distinct company identity by creating positive perceptions among customers. Secondly, this favourable evaluation of CSR efforts increases customer loyalty, through willingness to make repeat purchases and positive word-of-mouth impact (Latif et al., 2020). In addition to acting as a motivator, external CSR also influences customer relationships and future referrals. Therefore, external CSR encourages consumers to act in ways that enhance the company's reputation in the eyes of the public, particularly among potential customers (Green & Peloza, 2011). External CSR initiatives can significantly influence how customers perceive a company, ultimately fostering increased customer loyalty.

CSR is widely observed that today companies not only focus on increasing their profit, but they also help the public by serving through CSR (Yoon & Chung, 2018). Through the CSR activities it allows companies to integrate social and environmental concerns in their business operation with their stakeholders (Maqbool & Zameer, 2018), with these positive benefits today almost all companies contribute their certain budget to support the society they belong to through CSR activities. According to Leclercq-Machado et al. (2022), companies are always trying to attract their clients and compete in the market through developing strategies. The banking industry is becoming more reactive to CSR disclosure, and ESG (environment, social, and government) issues due to the widespread decline of customer trust in organisations (Zheng et al., 2022).

In a review of several countries, developed countries are more intent on maintaining social issues such as social welfare, quality of life and education and not much focus on productive operations (Freeman et al., 2011). In the context of Australia and Finland, they are much focused on managing environmental, economic, and social issues and concern for ethical business (Ralston & Maignan, 2002). In a review of the U.S., they are more intent on philanthropic programs (Liu et al., 2021). Developing countries, like India, are more focused on charitable and philanthropic contributions (Kapoor, 2017). Slovenians are slow to restructure their economy, so they lack the international best practices (Golob & Bartlett, 2007). CSR policies in countries like China are carefully matched with the country's economic and social aims (Sharma, 2019).

For decades, Nepalese organisations have embraced corporate social responsibility (CSR) in various ways but CSR in Nepal has not matured technically or institutionally (Chapagain, 2020). Similarly, Sigdel and Amponstira (2020) declared that Nepalese business, despite its tiny size and insignificant in the economy, has always chosen the road of responsible business operations and charity whenever possible which demonstrates that Nepalese business communities and corporations have a strong commitment to social responsibility (Upadhyay & Dhungel, 2013). In Nepal CSR activities more than philanthropic need to be done to benefit all the stakeholders. Thus, this study aims to examine the impact of external CSR on banking customer loyalty using stakeholder theory, similarly the awareness level of the customer on CSR activity conducted by the bank. The result of the study reveals that 94.29% are unaware of the CSR activity conducted by the bank. Activities such

as cleaning programs, Blood donation, Awareness Programmes, and plantation programmes are mostly performed in society that are mainly conducted by Local/Social clubs, banks, NGOs, and municipalities.

The study consists of five sections, starting with a literature review of CSR practices and practices in Nepal. The third section explains the research methodology, which includes conceptual framework, hypothesis creation, variable definitions, data collection and analysis, and sampling techniques. The fourth section presents the study's results, including socio-demographic analysis, customers' awareness and perception of CSR activities, and inferential analysis using techniques such as confirmatory factor analysis and hypothesis testing. The fifth section discusses the study's findings, and the final section concludes the study, suggesting directions for future research.

## LITERATURE REVIEW

### *Global Context of CSR Practices*

The concept of CSR evolved over several decades, corporate social responsibility (CSR) began in the 1950s, with the aim is to be fulfilling a social obligation (Latapi et al., 2019). Whereas in the 1960s, CSR meant maintaining a relationship between a corporation and society. Businesses must create shared values for their customers and stakeholders while also pursuing long-term development goals (Carroll, 2009). The involvement of stakeholders, legal and economic development, and improved quality of life all contributed to a shift in CSR perception in the 1970s (Farcane, 2015).

In 1983, world commission on Environment and development added the sustainability principles in CSR. The 1987, Our Common

Future report published by WCED established sustainable development by combining present needs fulfilment without sacrificing future generations' capability to fulfil their needs (WECD, 1987).

To influence business behaviour, Carrol developed a four-tiered CSR pyramid in the 1990s, focusing on businesses' economic, legal, ethical, and philanthropic responsibilities (Madrakhimova, 2013). CSR became a company strategy in the decade of 2001 (Shafiqur, 2011). Businesses must create shared values for businesses and stakeholders while also maintaining sustainable development goals in the decade of 2010 (Rupley et al., 2017).

Corporate social responsibility principles and processes are followed by the business firm to create a positive impact on their business and to gain legitimacy and support from stakeholders (Ralston & Maignan, 2002). In the context of the U.S. firm, they mainly focus CSR activity by maintaining the social welfare, quality of life, and education of the community rather than taking initiative which is closely associated with their productive operation (Holder-Webb et al., 2009). Australian firms are committed to managing the environmental, social, and economic dimensions of organisational activity (Petrovic-Lazarevic, 2008). European countries such as France and the Netherlands are concerned with handling stakeholder issues such as product service quality or employee health and safety (Forte, 2013), while the U.K. is concerned with philanthropic programmes and environmental issues (Liu et al., 2021).

In the context of the Developing nation, India has followed philanthropy and charity in calamities as the CSR

programme before the Parliament made mandatory (Maqbool & Zamir, 2019). Developing nations such as Slovenia, faces the challenge of implementing CSR due to economic constraints, regulatory gaps and limited awareness level (Golob & Bartlett, 2007). In this country due to slow economic restructuring and making priorities of short-term growth over sustainability hinders the acceptance of global CSR standards, addressing social and environmental issues.

Countries such as China ensure that CSR policies are carefully aligned with the country's economic and social goals (Sharma, 2019). As mentioned by the CSR and use of codes of ethics are less likely followed in European nations than U.S.

The interest in CSR has increased significantly while both the private sector and public sector commit for substantial funds (Aramburu & Pescador, 2019). CSR functions as a mandatory business duty for community enhancement through proper procedures (Fatma & Khan, 2023). Satisfied customers who demonstrate trust with their banking services display higher loyalty levels The businesses worldwide should prioritise CSR because banks utilise their funds to support programs in social welfare and education, health care and cultural development. Companies need to make societal welfare equivalent to economic matters as per Yilmazel (2022). Marcu et al. (2022) show that CSR creates better customer satisfaction because it drives improvement in products as well as social participation.

### ***CSR Practices in Nepal***

It started in the past 100 years and some of the organisations distribute wealth to build educational institutions, temples,

and Dharamshala. CSR practices are also followed by businesspeople when there are natural calamities such as floods, landslides, and earthquakes (Thapa, 2021). They support the affected people by providing clothes, food, and medicine. The establishment of the National Business Initiative (NBI) might be seen as the first crucial step towards increasing business awareness of CSR among businesspeople and putting it into reality (Sthapit, 2017). In 2004, the Federation of Nepal Chambers of Commerce and Industry (FNCCI) issued an 18-point Business Code of Conduct, which sets the minimum moral norm to be upheld by the business community (Wagle, 2021). According to Chaudhary (2017), Adhikari et al. (2016), in terms of CSR, Nepalese businesses can be categorised into two groups. Employee rights such as written employment appointments, regular working hours, and safety measurements are respected by the first cluster of businesses (These businesses are linked to Indian businesses or are part of supply chains that go out to Europe. Small and mid-sized family-owned businesses make up the second group of businesses. The majority of them are private companies, and their operations are guided more by the owners' convictions and interests than by international standards. In these companies, the potential for business and societal advantages through CSR is not completely realised). Sthapit (2021) reported that ambiguity about the definition and scope of CSR was widespread in the Nepalese corporate sector, with philanthropic initiatives being the most prominent among all CSR domains in Nepal; it would affect the CSR planning and implementation in Nepal. Financial and manufacturing organisations disclose above-average CSR engagement, focusing on more sustainable practices and economic development (Chapagain, 2020). On the other hand, Grade A school engage

on social impact CSR, such as education and community welfare. This trend shows that CSR is evolving from philanthropic activities to long term economic growth.

CSR in Nepal began with charitable contributions such as the development of temples, Dharamshala, and educational institutions, as well as contributions to natural disasters. The Federation of Nepal Chambers of Commerce and Industry (FNCCI) and the National Business Initiative (NBI) both issued an 18-point Business Code of Conduct, which establishes the minimal moral standard to be followed by the business community (Sthapit, 2017). CSR is contributed by Nepalese businesses through employee development, yet CSR is not realised by family-owned businesses (Parajuli et al., 2019). CSR is now involved in the economic development of countries. CSR activities are focused on a variety of issues in the global context, including environmental issues such as climate change, waste management, and global warming, societal issues such as poverty, social equality, corruption, human rights, and community relations, and economic issues such as employment, GDP (gross domestic product), and growth rate (Bidari & Djajadikerta, 2020). In the context of Nepal, corporate social responsibility has not much focused on measuring customer trust and loyalty, so this remains the gap for the study.

## RESEARCH METHODS

### *Conceptual Framework and Hypotheses Development*

In this study, several models are reviewed to understand the relationship of customer loyalty through external CSR practices. One of the models is CSR and Organisational Performance (Singh & Misra, 2021), Customer satisfaction and organisational attractiveness (Zhang & Zhang, 2019), next

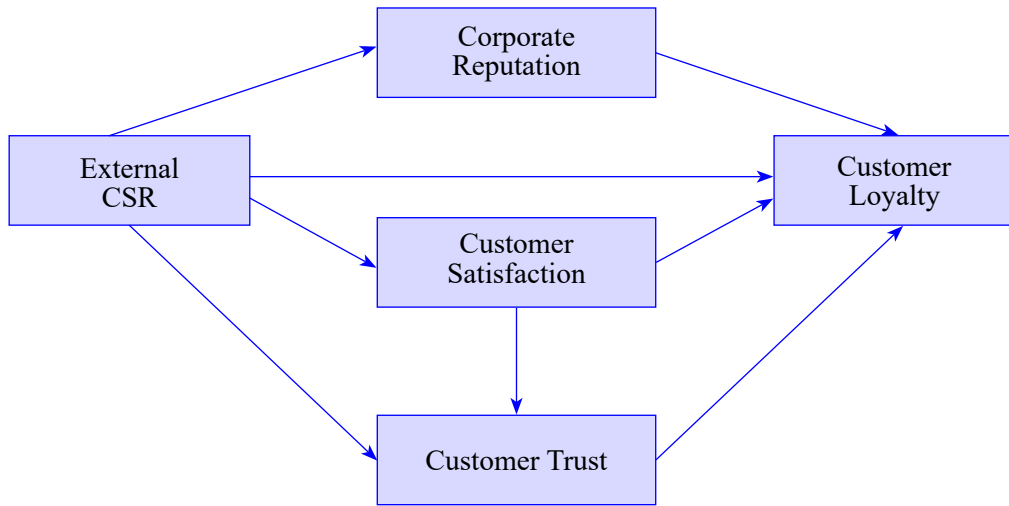


Figure 1. *Conceptual Framework*

one is CSR on customer loyalty (Cuesta-Valiño et al., 2019), CSR and customer loyalty (Shabbir et al., 2018), CSR influencing Customer satisfaction (Lee, 2019). As Singh and Misra (2021), the Conceptual model of CSR and organisation performance has shown the effectiveness of CSR towards employees, society and customers leads to organisational performance and shows that reputation plays a moderating role. Similarly, Zhang and Zhang (2019) conceptual framework show that external CSR among CSR creates reputation and increases customer satisfaction and organisational attractiveness. Cuesta-Valiño et al. (2019), Conceptual model of CSR declares that customer loyalty is positively influenced by CSR, and customer satisfaction, image, and quality have all influenced their relationships. Additionally, as per Shabbir et al. (2018), the conceptual framework of CSR shows that Customer's attitudes towards business are influenced by a company image, as a result, loyalty to the brand will grow.

The study is based on the stakeholder theory

proposed by Freeman which deals that stakeholders' responsibility is the border for the corporation and they have a responsibility towards suppliers, consumers, employees, stockholders, and the local community (Latapi, 2019). The stakeholder approach has even been referred to as "a powerful heuristic device, intended to widen management's perspective of its roles and obligations beyond the profit maximisation function to incorporate non-stockholding organisations' interests and demands" (Fassin, 2009).

Islam et al. (2021) show that corporate social responsibility initiatives are significantly and positively associated with corporate reputation, customer satisfaction, and customer trust. Furthermore, Corporate abilities serve as a strong moderator that enhances the connection of customer loyalty with corporate social responsibility initiatives by combining corporate capabilities and successful social responsibility programs. The conceptual framework of the study is presented in Figure 1.



Based on the conceptual framework, the various hypotheses can be developed as follows. The detail of the variables and their explanation is presented in Table 1.

### **External CSR and Corporate Reputation:**

Contributing funds to charities, community development projects, environmental and wildlife protection programs, and consumer-related issues are external CSR activities (Yoon & Chung, 2018). Company reputation emerge from its historical movements and resulted in increased business outcomes throughout time. A stakeholder forms their belief regarding the company's performance through their assessments of corporate characteristics stemming from company history and future business success potential (Singh & Mishra, 2021). CSR initiatives can help a company's reputation by addressing the needs of many stakeholders and building a relationship with them (Chapagain, 2021).

H<sub>1</sub>: External CSR practices positively affect corporate reputation.

### **External CSR and Customer Loyalty:**

Loyalty serves as a deep desire for repeated future purchase of selected products or services even when competitors may change behaviour through situational impacts and advertising strategies (Lee, 2019). Stakeholders always respond positively to CSR initiatives in a competitive world. The positive reaction leads to a positive consumer response, which leads to customer loyalty (Islam et al., 2021). Firms that Act in a socially responsible manner can build trust and a sense of belonging to a firm, which can impact loyalty (Cuesta-Valiño et al., 2019).

H<sub>2</sub>: External CSR practices positively affect customer loyalty.

### **External CSR and Customer Satisfaction**

Customer satisfaction is the reaction of a customer to a company's fulfilment of their expectation (Swaen & Chumpitaz, 2008). Customer satisfaction is critical for sustaining long-term customer relationships, which are often essential to a company's success (Zhang & Zhang, 2019). Satisfied customers are more inclined to purchase further goods and services from the company, resulting in increased loyalty to the company's products and services (Parastoo et al., 2015). When companies engage in CSR, they can better understand and improve their understanding of their customers, which helps to boost customer satisfaction (Ali et al., 2021).

H<sub>3</sub>: External CSR practices positively affect customer satisfaction.

### **External CSR and Customer Trust**

Consumer trust is defined as the belief that the product or service provider can be trusted to their work as they benefit the customers in the long run (Bosque, 2013). Organizations that embrace ethical values along with social responsibility show their dedication to society (Öberseder et al., 2014). When a company engages in CSR activity, stakeholders feel connected to the organisation's goals, they are more likely to have a positive impression of it. Stakeholders are more likely to trust corporations that recognise and address social issues ethically (Ali et al., 2021; Lee, 2019).

H<sub>4</sub>: External CSR practices positively affect customer trust.

### **Corporate Reputation and Customer Loyalty**

Reputation refers to a cognitive representation of a company's actions and outcomes that encompasses the company's potential to provide valuable outcomes

to its stakeholders (Ozdora et al., 2016). A company's good reputation emerges directly from its high-quality products which fulfil customers and establish customer commitment (Izogo & Ogba, 2015, Tan et al., 2022). Islam et al. (2021) show that corporate reputation is positively associated with customer loyalty.

H<sub>5</sub>: Corporate reputation is positively related to customer loyalty.

### ***Customer Satisfaction and Customer Loyalty***

The level of satisfaction determines customer loyalty because satisfied customers generate less complaints that add value to business growth by maintaining customer loyalty (Bricci et al., 2016). Customers with high levels of satisfaction are more likely to stay with a company. Customers who are delighted with a service continue to use it, which leads to customer loyalty (Ali et al., 2021). Moreover, Prasetyo et al. (2021) determined that customer satisfaction has a direct impact on customer loyalty.

H<sub>6</sub>: Customer satisfaction has a positive relationship with customer loyalty.

### ***Customer Trust and Customer Loyalty***

Trust can be referred to as the belief that each business partner will operate with honesty and reliability during their contacts. CSR leads positive impression of the consumer and creates a Positive attitude towards corporations (Iglesias, 2020). When clients are satisfied and have faith in a business, they will develop a long-term relationship with it and make repurchases, while building commitment (Ashraf et al., 2018). Trust is a stronger emotion than satisfaction, it is a greater predictor of loyalty (Bhat et al., 2018a).

H<sub>7</sub>: Customer trust has a positive relationship with customer loyalty.

### ***Customer Satisfaction and Customer Trust***

Previous research has shown a strong correlation between satisfaction and trust. A positive attitude towards a company is established by trust, which improves satisfaction (Bosque, 2013). Satisfaction is strongly correlated with a customer's level of trust (Swaen & Chumpitaz, 2008). Customer trust in a firm is more likely to grow if it serves its customers fairly and ensures a high degree of satisfaction through its staff and management (Singh & Misra, 2021). From a banking aspect, one of the essential components in establishing a connection between the bank and the client is trust (Bhat et al., 2018).

H<sub>8</sub>: Customer satisfaction is positively related to customer trust.

Additionally, the following hypotheses are stated based on various theoretical insights as well as the overwhelming past research evidence.

H<sub>9</sub>: Corporate reputation mediates the relationship between external CSR and customer loyalty.

H<sub>10</sub>: Customer satisfaction mediates the relationship between external CSR and customer loyalty.

H<sub>11</sub>: Customer trust mediates the relationship between external CSR and customer loyalty.

H<sub>12</sub>: Customer satisfaction mediates the relationship between external CSR and customer trust.



H<sub>13</sub>: Customer trust mediates the relationship between customer satisfaction and customer loyalty.

### **Research Design, Study Area and Population**

This research used an explanatory research design. The purpose of explanatory

studies involves discovering cause and explanations and collecting supporting or disputing evidence that tests theories or predictions. A study of this type examines how multiple elements of a research phenomenon relate to each other for reporting findings (Asenahabi, 2019). This research aims to find the effect of external

Table 1  
Variables and their Definitions

Construct	Variable Notation	Observed Variable	Explanation
External CSR (Islam et al., 2021 ; Palacios -florencio et al., 2018)	EC_1	Social Problem	Solving social problems
	EC_2	Local development	Contribution to local development
	EC_3*	Ethical Business	Believe in ethical conduct of business
	EC_4	Local Communities	Concern for improvement of local communities
	EC_5*	Environment protection	Concern for environment protection
Customer satisfaction (Islam et al., 2021)	CS_1	Personal relationship	Maintain personal relation with customer
	CS_2	Service	Feel satisfied in service
	CS_3	Complaint	Feedback on complaint
	CS_4*	Expectation	Banks Meets customers expectation
	CS_5*	Compare	Comparing with other it satisfied own expectation
Custome Loyalty (Islam et al., 2021)	CL_1	Encourage	Encourage other to join the organisation
	CL_2	Relationship	Long term relationship
	CL_3	Corporate image	Advertise good image to another person
	CL_4*	Preference	Prefer the bank products
	CL_5*	Continue	Continue its services
Custome Trust (Islam et al., 2021)	CT_1*	Responsive	Responsive to customer
	CT_2	Reliable	Promises made by organisation is reliable
	CT_3	Safe	Transaction is safe and secure
	CT_4*	Quality	Provide qualitative product/service
	CT_5	NRB norms	Follow NRB norms
Corporate Reputation (Islam et al., 2021)	CR_1*	Well Known	Company well known in public
	CR_2	Familiar	Provides Familiar product to customer
	CR_3	Customer benefit	Concern to customer benefits
	CR_4	Admire and respect	Customers admire and respect to the firm
	CR_5*	innovative	Provides innovative products

Note: \* Variable are excluded while data analysis which is shown in above table, they are EC\_3, EC\_5, CS\_4, CS\_5, CL\_4, CL\_5, CT\_1, CT\_4, CR\_1, CR\_5.

CSR practices on customer loyalty among commercial Banks in Kathmandu Valley for which dependent and independent variables are generated. The explanatory research design is undertaken to have deep knowledge of external CSR practices such as (Environment, society, and customer) on customer loyalty and trust.

The study area is in Kathmandu Valley, Province No. 3, Nepal. The research focuses on the Kathmandu Valley, comprising Kathmandu, Lalitpur, and Bhaktapur, due to the concentration of commercial bank offices and the high number of CSR activities in the region. The Central Bank of Nepal mandates that banks allocate 1% of their funds to CSR activities (NRB, 2016). Moreover, the Kathmandu Valley has a larger customer base and population, estimated at 2,017,532 people as of 2022 (CBS, 2022). The study population comprises customers of various banks.

### ***Sampling Technique and Determination of Sample Size***

Non-probability sampling is used in this study, as the sample is undefined, and the customer may be any person. In experimental research, non-probability sampling is frequently used, however it does not accurately reflect the target population (Vehovar et al., 2016). Conventional sampling is used for data collection. There are numerous methods for calculating sample size. For small populations, including census, imitating sample from past research, utilizing tables that are readily available, and using algorithms to determine a sample size (Naing, 2003). Cochran developed an Equation, to create a representative sample for proportions in large populations, which is given as  $n_0 = \frac{Z^2 pq}{e^2}$

, Where  $n_0$  = sample size for study, Standard tabulated value for 5% level of significance ( $z$ ) = 1.96, Prevalence or proportion of an event  $50\% = 0.50$ ,  $p = 0.5$ ,  $q = 1 - P = 0.5$ , Allowable error that can be tolerated ( $e$ ) = 5%. This study also undertakes a 5% non-response error. Thus, the sample size taken for the study was 403.

### ***Research Instrument, Data Collection, and Analysis***

In this study structural questionnaire with interview was taken as the research instrument. A structured questionnaire has been developed to collect the primary data on banking customer loyalty through the CSR initiatives. The questionnaire presents the 5 Likert scale ratings between (1 = strongly disagree) and (5 = strongly Agree). The data collection instrument is a structured questionnaire designed for 403 participants. Kobo Toolbox used in the study which is a data collection tool, and the study uses pilot testing of fifteen different respondents. SEM uses as the analytical method together with descriptive and inferential approaches to analyse the data.

### ***Study Limitations***

This study exclusively used external CSR to measure banking customer loyalty. Future research could incorporate both internal and external CSR activities by banks to provide a more comprehensive assessment of customer loyalty. Additionally, the study is confined to the Kathmandu Valley; extending research to other regions could yield deeper insights into the effectiveness of CSR practices by banks. Moreover, this study used only five items per variable to measure customer loyalty. Future studies could test additional variables to further explore the relationships more thoroughly.

Table 2.  
Socio-demographic Variables

Title	Category	Number	Percentage (%)
Gender	Male	229	56.82
	Female	174	43.18
Marital status	Unmarried	292	72.46
	Married	111	27.54
Age	18-29	303	75.19
	30-39	71	17.62
	39-49	15	3.72
	50 and above	14	3.47
Education level	Bachelor	205	50.87
	Intermediate	84	20.84
	Master	73	18.11
	SLC/SEE	38	9.43
	Below SLC/SEE	3	0.74
Profession	Student	169	41.94
	Business	80	19.85
	Service Sector	56	13.9
	Others	47	11.66
	Health Personal	15	3.72
	Government Service	10	2.48
	Teaching	10	2.48
	Engineering	9	2.23
	Agriculture	3	0.74
	INGO	3	0.74
	NGO	1	0.25
Family type	Nuclear	303	75.19
	Joint	99	24.57
	Extended	1	0.25
Income level	Below 20,000	205	50.87
	20,000-40,000	120	29.78
	40,000-60,000	49	12.16
	60,000-80,000	14	3.47
	80,000-1,00,000	7	1.74
	1,00,000 and above	8	1.99

*Note.* Survey Data (2022)

Table 3.  
Most Performed CSR Activities

Most performed Activities	Number	Percentage (%)
Cleaning Programme	314	77.92
Blood Donation	190	47.15
Awareness Programme	85	21.09
Plantation	68	16.87
Financial Literacy Programme	39	9.68
Eye Checkup	32	7.94
Scholarship	31	7.69
Dental Camp	25	6.2
Promotion of Art and Culture	14	3.47
Others	5	1.24

*Note.* Survey Data (2022)

## DATA ANALYSIS AND DISCUSSION

### *Socio Demographic Analysis*

A total of 403 respondents were participated in the survey among them majority of the respondents are male (56.82%) and the rest 43.18% were female.

Different personnel are involved in the study such as students, and businesspersons from different sectors, which shows the mixture of perceptions of the people in CSR practices (See Table 2).

### *Customers' Perception on CSR Activities*

In this study, respondents were asked about the CSR activities in their locality, institutions that are highly involved in CSR initiatives, and the frequency of the activities. The results of this study reveal that the cleaning programmes (77.92%), Blood donation (47.15%), Awareness Programs (21.09%), and plantation programmes (16.87%) the mostly performed activities. Similarly, the result of this study demonstrates that 60.55% of respondent observed moderate

levels and 37.23% observed the low level of the CSR activities conducted in their locality. The result of this study is like the [Moharana \(2013\)](#) which mentioned that Indian banks have been involved in social welfare and community development, where they have mostly engaged in the areas of rural development, education, community welfare, women, and children.

This study has located the institutional involvement for such CSR activities promoted in their locality, Local clubs (72.46%) are mostly involved, similarly, banks (30.77%), NGOs (20.6%), and municipalities (17.37%) are involved where other organisation has less contributed to the social activities (See Figure 2).

According to respondents, banks such as NIC Asia, Nabil Bank, Rastriya Banijya Bank, and Global IME are mostly involved in CSR activities. In the context of Indian organisations, corporations such as Tata Group, Birla Group, and Indian oil corporations have mainly engaged in charity and donations ([Khanna & Gupta, 2011](#)).

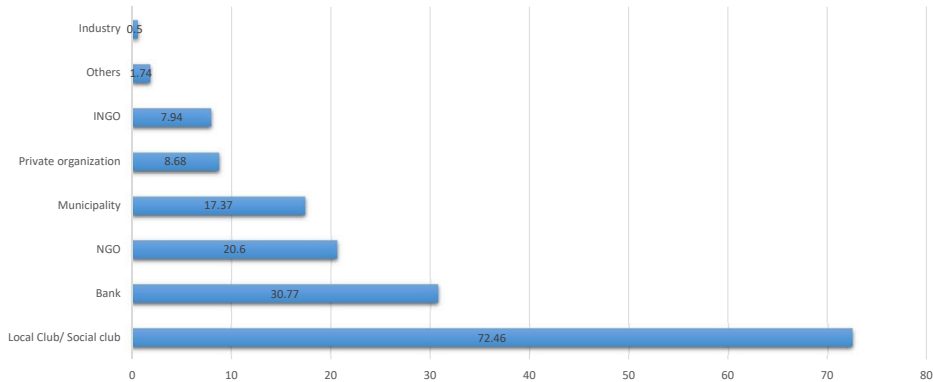


Figure 2. *Institution Involved in the Society*

Note. Survey Data (2022)

Ksiezak (2016) noted that socially responsible organisations contribute to society and engage in philanthropic activities, benefiting those in need and increasing trust. The result of this study shows that, 95.04% of respondents believes there are benefits through CSR activities; 78.16% believe CSR improves the environment, 70.9% think through CSR there will be better personal relationships, 65.26% appreciate customer responsiveness, and 60.3% value ethical business conduct (See Figure 3).

customer relationships. Respondents suggest that banks should contribute to local development, collaborating with municipalities to develop amenities such as chautara (sitting places), and tap, and maintain roads. They also recommend establishing a CSR agency to guide fund utilisation for customer benefits. Islam et al. (2021) emphasised that managers should consider CSR as a strategic approach to build stakeholder relationships and provide social benefits.

Sprinkle and Maines (2010) stated that CSR helps protect the environment and maintain

Customers' Awareness Level on CSR: It is important to ensure the customer awareness



Figure 3. *Benefits of CSR Activities*

Note. Survey Data (2022)

of CSR activities, and the customer awareness of bank CSR activities serves to shape customer opinions, approach and judgments towards the company (Aracil, 2019). The study reveals that 48.88% of respondent have observed bank engagement in the CSR activities in their locality. Dolnicar and Pomeroy (2007) found that 66% of Australian customers are aware of the bank's engagement in social issues, environmental concerns, donations to art and culture, etc. The customer level of knowledge regarding the CSR activities by the commercial bank was measured using an awareness index. To evaluate the level of awareness of CSR by banking customers total of 25 questionnaires with "Yes" and "No" questions are asked. Therefore, in the study, people who achieve correct answers in 19 questions or more as highly aware of CSR activities (Y=2). Those who correctly answer less than 13 survey questions are placed into the category of individuals with low CSR awareness (Y=0) and all others fall under medium knowledge (Y=1). The general form equation of awareness level is >75% (Highly Aware), 50% to 75% (Moderately Aware) and <50% (Less Aware) (Devkota & Phuyal, 2018). Respondent mentioned that social activities such as plantation programs, dustbin distribution, health camps, promotion of art and culture, and other activities were not conducted regularly by the banks, and they also deny that the bank is less involved in such activities (See Table 3).

From the overall awareness index, it is found that 94.29% are unaware of the CSR activities conducted by the bank in their locality, whereas 4.21% are moderately aware and the rest 1.5% are highly aware of the CSR activities conducted by the bank in their locality or surroundings.

### **Confirmatory factor analysis (CFA)**

The CFA procedure exists to verify that various variables share commonalities. The testing approach examines various hypotheses at the same time. (Harrington, 2009). The research checks whether multiple elements produce the expected results regarding participant answers. The fitness indicators CMN /DF 3.355 and RMR 0.017 together with RMSEA 0.077 to evaluate GFI 0.0921, IFI 0.0948 and TLI 0.931 and CFI 0.948 to determine the model fit quality. All fitness indicators demonstrate a superb model fit according to this study that all indicators fulfill needed thresholds for CMN/DF<3 and IFT>0.90 and TLI>0.90 and CFI>0.90 (Harrington, 2009).

### **Convergent Validity (CV)**

Convergent validity describes the extent to which different measures of one concept align with each other when used for assessment (Cable & Derue, 2002). The measurement of construct strength through scale items depends on the established facts related to that construct. A group of three tests serves to validate the convergence of measurement variables, according to Ting (2018), Factor loading and Average Variance Extracted (AVE) as well as Construct Reliability operate under minimum cut-off standards to establish convergent validity. The study proposes three criteria: AVE values must surpass 0.50 while CR should exceed 0.70 and CR levels should surpass AVE values.

### **Discriminant Validity (DV)**

Discriminant validity measures how unconnected different dimensional assessments exist or only demonstrate minimal correlation points between them. It guarantees that a structural measure is empirically distinct and describes



Table 4  
Awareness Level on CSR

Particular	Yes		No	
	No.	%	No.	%
Have you ever observed social activities conducted by bank in your locality or nearby in last 5 year.	197	48.88	206	51.12
Do you have notice bank conducted plantation program in your locality or nearby.	155	38.46	248	61.54
Do you have involved in the plantation program conducted by bank in your locality or nearby.	17	4.22	386	95.78
Do you have noticed the bank have distributed dustbin in your locality or nearby	83	20.6	320	79.4
Do you have involved in the dustbin distribution program conducted by the bank in your locality or nearby.	18	4.47	385	95.53
Do you have notice blood donation program conducted by bank in your locality or nearby.	130	32.26	273	67.74
Do you have involved in the blood donation program conducted by bank in your locality or nearby.	42	10.42	361	89.58
Do you have notice cleanness program operated by bank in your locality or nearby.	96	23.82	307	76.18
Do you have involved in the cleanness program operated by bank in your locality or nearby.	30	7.44	373	92.56
Do you have noticed a health camp organised by bank in your locality or nearby.	55	13.65	348	86.35
Do you have involved in the health camp organised by bank in your locality or nearby.	21	5.21	382	94.79
Do you have notice eye checkup champ organised by bank in your locality or nearby.	37	9.18	366	90.82
Do you have involved in the eye checkup camp organised by bank in your locality or nearby.	14	3.47	389	96.53
Do you notice dental camp organised by bank in your locality or nearby.	24	5.96	379	94.04
Do you have involved in the dental camp organised by bank in your locality or nearby.	11	2.73	392	97.27
Do you know traffic booth developed by bank in your locality or nearby.	39	9.68	364	90.32
Do you know bus stop/ station made by the support of bank in your locality or nearby.	48	11.91	355	88.09
Do you have notice financial literacy program run by bank in your locality or nearby.	46	11.41	357	88.59

Particular	Yes		No	
	No.	%	No.	%
Does your family /relatives / neighbor have received any cholarship provided by bank.	24	5.96	379	94.04
Do you have notice bank work for promotion of art and culture in your locality or nearby.	45	11.17	358	88.83
Do you have notice bank distribute cloths, food to support the poor people in your locality or nearby.	58	14.39	345	85.61
Do you have notice awareness board/ hording board established by bank in your locality or nearby.	112	27.79	291	72.21
Do you have ever seen social activities of bank publish in daily newspaper.	70	17.37	333	82.63
Do you have ever observed the social activities published on bank website.	83	20.6	320	79.4
Do you have social activities are posted in the bank's social media such as (Facebook, LinkedIn, YouTube).	122	30.27	281	69.73

*Note.* Survey Data (2022)

phenomena of interest that are missed by other indicators in a structural equation model. It's argued that a measure has discriminant validity when it doesn't correlate with other measures that aren't conceptually similar. To determine convergent validity, it has two scenarios: AVE should be greater than ASV and MSV, and  $\sqrt{\text{AVE}}$  should be greater than correlation ( $r$ ).

### **Measurement Model**

This model is used to define the unidimensionality, reliability, and validity of the study. For assessing the validity of each variable, convergent and discriminant validity was used. Data validity was determined by the use of James Gaskin's stat wiki validity matrix and the result is presented below.

An analysis of variable values appears in Table 4. The requirement for data validity includes both  $\text{CR} > 0.70$  and  $\text{AVE} > 0.50$  for convergence validity and AVE must exceed MSE while square root of AVE should surpass

the correlations to demonstrate discriminant validity. The study validates both convergence and discriminant validity through the observed criteria (see Tables 4 and 5).

### **Mediation Analysis**

The study determines whether there is a meaningful influence of the mediating variable on independent and dependent variables. The mediation relationship required evaluation using the Sobel Test. The mediation analysis shows direct and indirect effects on the model. In this study five mediation analyses have been investigated such as EC->CR->CL, EC->CS->CL, EC->CT->CL, EC->CS->CT, CS->CT->CL. The study seeks to establish if the proposed relationship of mediation exists completely or only partially. The p-value in the first 4 mediation fulfils the criteria of P value  $< 0.05$ , which shows that there is a significant relationship except the CS->CT->CL and reveals that there is partial mediation in the study (See Table 6).

Table 5  
Reliability and Validity

Construct	Indicator	Factor Loading	Cronbach's Alpha	CR	AVE	MSV
External CSR	EC_1	0.113	0.818	0.834	0.636	0.031
	EC_2	0.103				
	EC_4	0.074				
Customer Satisfaction	CS_1	0.453	0.831	0.857	0.673	0.166
	CS_2	0.430				
	CS_3	0.304				
Customer Loyalty	CL_1	0.306	0.896	0.899	0.749	0.166
	CL_2	0.428				
	CL_3	0.448				
Customer Trust	CT_2	0.397	0.798	0.804	0.578	0.193
	CT_3	0.341				
	CT_5	0.291				
Corporate Reputation	CR_2	0.470	0.918	0.920	0.793	0.193
	CR_3	0.441				
	CR_4	0.486				

Note. Survey Data (2022)

Table 6  
Latent Construct Correlation

	EC	CT	CS	CL	CR
EC	0.797				
CT	0.103	0.760			
CS	0.177	0.391	0.820		
CL	0.146	0.403	0.407	0.866	
CR	0.148	0.439	0.375	0.323	0.891

Note: EC= External CSR, CT= Customer Trust, CS= Customer Satisfaction, CL=Customer Loyalty, CR= Corporate Reputation; Survey Data (2022)

### Path Analysis

The study tested hypothesis using the structural Equation Modelling (SEM). Figure 4 shows five latent constructs that include various observed variables. The  $R^2$  value indicates the extent of explanation power between zero and one where higher values

represent stronger explanatory abilities. The predictive power of 0.75, 0.50, and 0.25  $R^2$  values represent significant, moderate, and weak influences as per Henseler et al. (2015) and Hair et al. (2011) The model explains 20.4 % of the variance, i.e.,  $R^2$ , in customer loyalty through the independent variable.

Table 7  
Result of Mediation Analysis

Relationship			Mediation Effect		Test Statistics	P-value	Decision
EC->CR->CL			b	S <sub>b</sub>			
	a	0.106	0.323	0.052	2.6015	0.009	Supported
	S <sub>a</sub>	0.037					
EC->CS->CL	a	0.180	0.355	0.048	3.8443	0.000	Supported
	S <sub>a</sub>	0.040					
EC->CT->CL	a	0.085	0.398	0.053	2.2524	0.024	Supported
	S <sub>a</sub>	0.036					
EC->CS->CT	a	0.180	0.310	0.042	3.8422	0.000	Supported
	S <sub>a</sub>	0.040					
CS->CT->CL	a	0.310	0.398	0.053	5.2639	0.000	Not Supported
	S <sub>a</sub>	0.042					

Note. Survey Data (2022)

Table 8  
Path Estimates for Structural Model

	Estimate	S.E	C.R	P	Conclusion
H <sub>1</sub> : External CSR→Corporate Reputation	0.177	0.062	2.843	0.004	Significant
H <sub>2</sub> : External CSR→Customer Loyalty	0.062	0.052	1.168	0.243	Insignificant
H <sub>3</sub> :External CSR→Customer Satisfaction	0.215	0.066	3.269	0.001	Significant
H <sub>4</sub> :External CSR→Customer Trust	0.036	0.052	0.682	0.495	Insignificant
H <sub>5</sub> :Corporate Reputation→Customer Loyalty	0.123	0.045	2.706	0.007	Significant
H <sub>6</sub> :Customer Satisfaction→Customer Loyalty	0.229	0.049	4.629	***	Significant
H <sub>7</sub> :Customer Trust→Customer Loyalty	0.272	0.065	4.16	***	Significant
H <sub>8</sub> :Customer satisfaction→Customer Trust	0.301	0.048	6.3	***	Significant

Note. Survey Data (2022)

### Test of Hypotheses

Table 7 presents the hypothesis test results: H<sub>1</sub>, H<sub>3</sub>, H<sub>5</sub>, H<sub>6</sub>, H<sub>7</sub>, and H<sub>8</sub> are accepted, indicating significant relationships, while H<sub>2</sub> and H<sub>4</sub> are rejected, showing insignificant relationships. Mediation analysis, using the Sobel test, reveals that customer satisfaction, trust, and corporate reputation mediate the relationship between external CSR and customer loyalty.

An analysis with regression studies and variable evaluations takes place through SEM during the inferential phase. An assessment takes place for both latent variables and observed variables. The model fitness standard indicates an excellent state of shape. The CMIN/DF value is 3.355 which is below the threshold value of 5 thus it is acceptable. The observation that the p-value falls below 0.05 proves that a

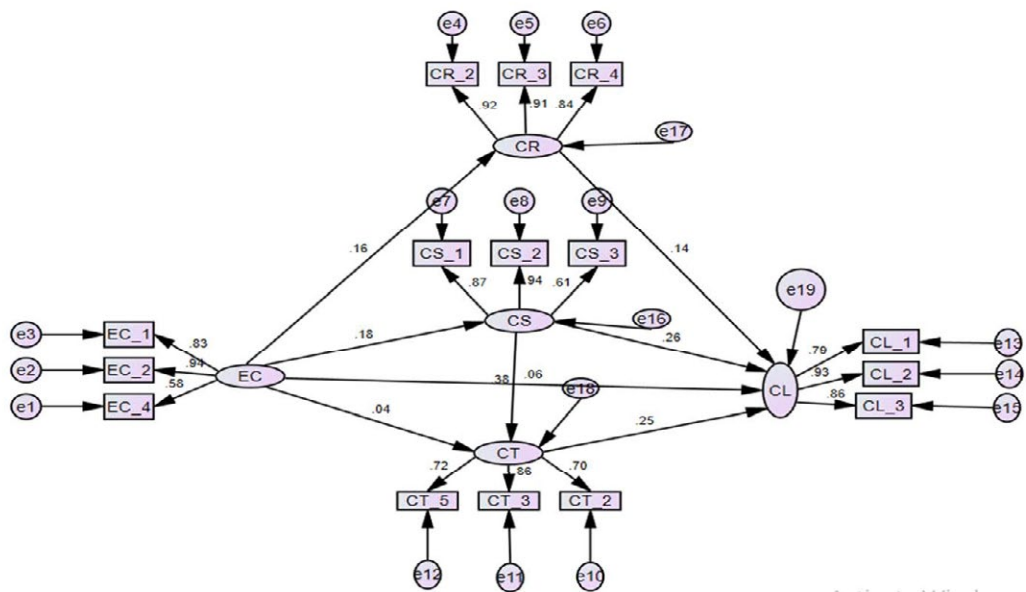


Figure 4. *Final Structural CSR and Customer Loyalty Model*

meaningful connection exists between the latent variable and observed variable. For accepting the hypothesis p-value needs to be less than 0.05 i.e. ( $<0.05$ ).

### Discussion

The study examined the effect of the banking CSR initiative and its impact on customer satisfaction, trust, and loyalty. In this competitive market making customers happy is a difficult and important task of many businesses. In the research, we have used the mediation analysis to check the impact of external CSR practices on banking customer satisfaction, trust, and at last their loyalty to banking business. The finding shows that there is a significant relationship between the mediation variables with customer loyalty shown by the hypotheses  $H_6$ ,  $H_7$ , and  $H_8$ . Hypothesis  $H_1$  and  $H_3$  show that external CSR has a positive impact on the mediation variable corporate reputation, and customer satisfaction but the

insignificant relationship of external CSR and customer trust is shown by hypothesis  $H_4$ . According to Bosque (2013) customer satisfaction and corporate reputation show a substantial positive correlation between them. They mentioned that the customers are more willing to relate with companies who are socially responsible as that helps to fulfil their self-esteem and increase satisfaction. According to the fifth hypothesis, corporate reputation and customer loyalty have a significant relationship. Islam et al. (2021) mentioned that a firm with a high reputation builds a good association with customers and leads to customer satisfaction and loyalty. Further, hypotheses sixth and seventh play a mediating role, which shows customer satisfaction and trust have a significant relationship with customer loyalty. Ali et al. (2021), reveal that customer satisfaction plays as a mediating role in perceived CSR and customer loyalty. CSR activities

have a greater and significant impact on the satisfaction level of consumers. Organisations having CSR activities help to increase the satisfaction level of consumers and encourage them to trust and stay committed to organisation (Ashraf et al., 2018).

According to Palacios-Florencio et al. (2018) organizations that pursue CSR activities generate trust from customers as well as build customer loyalty. They also show that organisations that invest in socially responsible initiatives strengthen trust and loyalty as well as good corporate image. The awareness level regarding external CSR initiatives of the banking industry is on lower side among the customers of Kathmandu Valley. Studies including Dolnicar and Pomeroy (2007) have revealed that there was a low awareness level of CSR initiatives mainly social issues engaged by the bank. Additionally, different theories are discussed in the study such as stakeholder theory, institutional theory, consumer behaviour theory, social identity theory, and resource-based theory. Furthermore, stakeholder theory is more appropriate in the study as this theory says that organisations need to balance the interests of different stakeholders. Iglesias (2020) reveals that the stakeholder theory helps to determine customer loyalty.

## CONCLUSION AND IMPLICATIONS

The study investigated the influence of Corporate Social Responsibility (CSR) on customer loyalty in the banking sector within Kathmandu Valley. It aims to assess customer loyalty, determine the level of customer awareness regarding CSR activities, analyse the benefits derived from CSR initiatives, and propose managerial solutions to enhance these benefits. To gauge awareness levels, a comprehensive awareness index was used which shows that the less aware of people's CSR practices conducted by the bank. Respondents opine that banks' philanthropic activities are beneficial for fostering trust and goodwill in the organisation. The result of the study further explains the impact of External CSR significantly influences corporate reputation and customer satisfaction, which, in turn, impacts customer loyalty and trust. This implies that external CSR practices need to be practised regularly.

**Implications:** The findings imply that banks should consistently implement and promote external CSR activities to strengthen their corporate reputation and enhance customer satisfaction. Similarly, increased visibility and awareness of these initiatives can build greater trust and loyalty among customers in the banking sector.

### *Funding*

The authors declare having no funding support for this study.

### *Conflict of interest*

The authors declare having no conflict of interest.

### *Informed consent*

Informed consent was taken from the consumers before proceeding with a survey with them.



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