

Impact of CSR Initiatives and Perceived Corporate Reputation On Consumer Loyalty

Rizwana Hameed¹, Dr. Muhammad Shakaib Akram², Prof. Dr. Muhammad Shoaib³, Ali Mumtaz⁴

¹MS-Management Scholar, IB&M UET, Lahore, Pakistan

²Assistant Professor, IB&M University of Engineering and Technology Lahore

³Director IB&M, UET, Lahore Pakistan

⁴MA in International Business Management, Bradford College – Bradford College UK

Received: October 25 2013

Accepted: November 30 2013

ABSTRACT

The purpose of the study is to explore the association between consumer perception of CSR, perceived corporate reputation, and consumer loyalty in consumer marketing. A conceptual model has been established to recite their relationship displaying customer loyalty as dependent variable while consumer perception of CSR and perceived corporate reputation as independent variable. A questionnaire with five point likert scale is developed to investigate the relationship. Outcomes present positive association between all variables. This study has certain limitations with respect to monetary evaluation of CSR initiatives by the firms. Comprehensive qualitative research deem necessary to look for the same issues. This research has made some practical and theoretical contributions toward building consumer loyalty for the firms.

KEYWORDS: Perceived Corporate Reputation, CSR, Customer loyalty.

1. INTRODUCTION

Corporate social responsibility (CSR) has become a conventional topic, expanding to a corporate urgency in management and marketing [1]. The question that how CSR affects customers' and other stakeholders' perceptions and how it affects the company's reputation, corporate identity, image, and organizational success has become one of the key topics at the intersection of sustainability and marketing research [1,2]. Whereas the conception of a robust reputation and image has been documented as one of the key aspect in the success or failure of almost all key organizations for some time [3].

Since international business are growing at much pace, there is need to develop more understanding of consumers cultural multiplicity by the marketers as it effects on consumer satisfaction [4] that leads to build loyalties. More ever, negative information concerning CSR issues tend to weight heavier than positive one when consumers prefer on what to buy [2], which may deduce that consumers aware of unethical policies and activities would reject brands/companies participating in such activities. Consequently, the relationship between consumers' perception of the standpoints on ethical policies that certain brands demonstrate is not favorably linked to any preferred purchasing of such products.

[5] Defines human values as "desirable goals, varying in importance that serves as guiding principles in people's lives." Values act as a guiding principle to select or evaluate behavior, people, and events. Values are found to be related with the behavior but this relationship is quite weak. Prior research findings suggest that values affect behavior but this effect is indirect—because the relationship between values and behavior is supposed to be mediated by more specific factors, such as individual beliefs [6,7]. On the other hand, values have a direct relation with an individual's beliefs on a wide array of topics, which in turn affect the individual's (environmentally or socially directed) behavior. Values act as standard for the individuals to select and justify their actions and to value objects and others' conduct [9].

Furthermore, models of ethical decision-making in organizations were designed which identified that ethical decisions are greatly influenced by personal values [9]. However, [10] claimed that values have positive effects on the formation of environmental attitudes, which subsequently result in pro-environmental behavior. Consumers' have their own value orientations according to which they determine that how they appreciate the CSR actions [11, 12] If the fit between consumer's values and company CSR activities is high, they tend to perceive CSR activities more positively. But if the fit is low, then consumers are found to perceive CSR activities less positively.

2. Background of study & Hypothesis

Corporate social responsibility (CSR), is also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity where organizations put society at priority to safeguard its societal

interests by taking responsibility for their actions that have the direct impact on all stakeholders including customers, suppliers, employees, shareholders, communities and others. CSR has extended beyond its statutory obligation to voluntarily participation of the organizations to strengthen the quality of life of the employees, their families, local community and society at large.

Although due to this added concern for corporate social responsibility in the market, much is left unknown with respect to the effects of CSR activities on consumers [2]. Apparently it's difficult to estimate the impact and effect of CSR actions on consumer assessments. Modern researches recommended that a CSR action may prove to be a failure for the organization if consumers become wary and view company's true CSR activity is only to enhance its goodwill rather than concerned for consumers [13, 14], or actions or steps taken under CSR head may divert an organization from manufacturing its valuable goods [15]. The backfire effect of CSR activity is somewhat maintained by pessimistic relationship between CSR and corporate financial performance (CFP) known to various empirical researches [16, 17].

The study emphasizes on consumer perceptions of CSR activities, providing additional imminent that augments our understanding of the impact of CSR plans may have on consumers. The perceived fit between the firm and CSR actions has affirmative consequence on consumer response that is previously focused by different authors like [2, 18, 19]. The major focus of these authors is on the consequences which are helpful for us to determine the perceived fit.

[20] Point out the importance of considering customer satisfaction as an evaluative consequence of CSR that helps to explain the equivocal link between CSR and a firm's market value (i.e. stock-based firm performance). CSR directly affects the customer word of mouth and loyalty and in this regard, [15] claim that CSR has an impact on the behavioral outcomes through multiple paths, whether directly or mediated by overall corporate evaluation.

Following [21], when a company's CSR actions are tied with strong corporate skills and capabilities, it generates favorable attribution and strong customer-firm identification which ultimately results in profitable behaviors. Another explanation of direct links is that when companies engage in CSR they can better understand their customers and improve the customer-specific knowledge [22]. Therefore customer develop a favorable image of CSR companies and they perceive that such companies understand and respect their customers in better manner and thus give high value to them.

In the same manner, [23] propose Customer's behaviors are positively influenced by CSR firm because being socially responsible create good reputation in the eyes of customers and as a result customers supports such firms and modify their behaviors accordingly. Satisfaction also may justify the psychological mechanism through which CSR relates to customer behaviors, but this claim remains uncertain.

The inspection of methods to influence consumers to pay more attention towards CSR activities is more imperative than ever. The study shows which factors affect consumer perception of CSR activities. Although the research from a consumer perspective is essential and timely, prior research focuses mostly on dimensions of perceived fit from the corporate perspective and little on consumer perspective. To rise above such a limitation, this study reflects on how corporate responsibility activities match up to consumers' lifestyles and values. [6], focuses generally on consumers' standards of living and subsistence are essential determinants in recognition and acuity of an organization's CSR activities.

Conceptual Frame Work

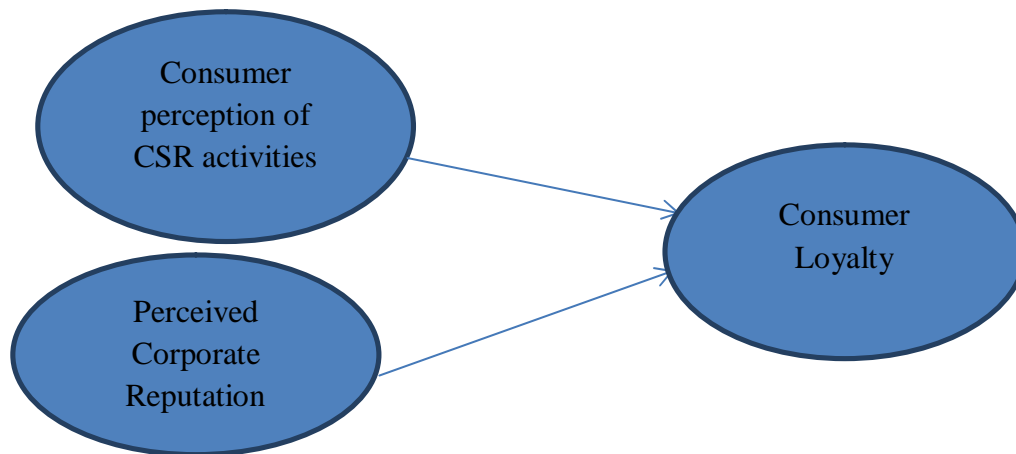


Fig 1: Impact of CSR Initiatives and Perceived Corporate Reputation on Consumer Loyalty

H1: Consumer Perception of CSR directly influences the consumer loyalty

H2: Corporate Reputation helps to build consumer loyalty

3. METHODOLOGY OF THE STUDY

3.1 Data Source

The research was survey based research. The core purpose of the study was to evaluate the customer loyalty due to its relationship with firms CSR initiatives and perceived corporate reputation. For this purpose response was essential from the consumer about firms CSR initiatives with corporate reputation and consumer loyalty to any company, so survey research was conducted. Data was collected from the both primary and secondary sources. For primary sources, interviews and questionnaire were used and secondary data was collected from the existing sources like leading FMCG's firm websites and prior studies.

3.2 Sampling Plan

Sample size is comprises of 150 respondents who are the Consumers. Among 150 respondents we just got 120 responses and final analysis has been done on 109 respondents. Random sampling has been used for the collection of data because in Pakistan it's difficult to collect data using random as compared to no-random techniques but the chances of generalizability of results increase after random sampling.

4. Findings and Discussion

Demographic variables with certain estimates are given below.

Table 1 Age of The Respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 years and below	1	.9	.9	.9
	20-30 years	63	57.8	57.8	58.7
	31-40 years	31	28.4	28.4	87.2
	41-50 years	10	9.2	9.2	96.3
	50 years and above	4	3.7	3.7	100.0
	Total	109	100.0	100.0	

Results from table 1 indicates a percentage which shows that the respondent between 31-50 age group are more keen and interested in developing their purchase patterns for those companies who are involved in CSR initiatives.

Table 2 Monthly Income of Respondents (in PKR)					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 50,000	51	46.8	46.8	46.8
	50,001-100,000	37	33.9	33.9	80.7
	100,001-150,000	16	14.7	14.7	95.4
	150,001-200,000	4	3.7	3.7	99.1
	200,000 & above	1	.9	.9	100.0
	Total	109	100.0	100.0	

These results from table 2 show the high percentage of monthly income is among the middle income group. They are more conscious with respect to the selection and purchase of the goods and services. Moreover, such purchase patterns help to build loyalties.

Table 3 Education Level of Respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Matric and below	1	.9	.9	.9
	Intermediate	6	5.5	5.5	6.4
	Bachelors	38	34.9	34.9	41.3
	Masters and above	64	58.7	58.7	100.0
	Total	109	100.0	100.0	

Results from table 3 shows that the respondents with high education levels are more familiar with CSR notion. They are more alert part of the population who realizes the positive outcomes of CSR activities both for the companies and themselves.

Table 4		Years of working experience of the Respondents			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below five years	56	51.4	51.4	51.4
	6-10 years	25	22.9	22.9	74.3
	11-15 years	13	11.9	11.9	86.2
	16-20 years	9	8.3	8.3	94.5
	20 years & above	6	5.5	5.5	100.0
	Total	109	100.0	100.0	

Table 4 indicates the year of work experience. The results show that work experience among the young ones is comparatively high. They are the one who are newly qualified professionals and have an idea about corporate reputation and CSR.

4.1.1 Data Analysis Method

For data collected from questionnaire is analyzed using regression analysis through SPSS software. To test the significance of the hypothesis, T-Test was used. The variance was calculated through f – test ANOVA. The descriptive statistics of the data is provided in the following table.

Table 5 Descriptive Statistics					
	Mean	Std. Deviation	CSR	PCR	CLY
Perceived CSR	3.814	0.918	1		
Perceived Corporate Reputation	3.929	0.894	0.586**	1	
Consumers' Loyalty	3.814	0.851	0.553**	0.517**	1

Table 5 of descriptive statistics sample space mean values and the values of standard deviation of variables have been shown. Mean value proposes the idea about the central tendency of the values of a variable. Number of observations of each variable is 109. The descriptive statistics shows that all the variables are positively correlated to each other.

4.1.2 Hypothesis Testing

The hypotheses proposed in the conceptual model have been tested using multiple regression analysis. The results of multiple regression analysis are shown in the table below.

Table 6: Results of Regression Analysis						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.368	0.324		4.221	.000
	Perceived CSR practices	0.352	0.089	0.380	3.970	.000
	Perceived Corporate Reputation	0.281	0.091	0.295	3.078	.003
<i>a. Dependent Variable: Consumers loyalty, Model R² = 0.363</i>						

Results from table 6 indicates that by evaluating the data of the questionnaire, the measured regression line is as under

$$Y = 1.368 + 0.352X_1 + 0.281X_2 + 0.089$$

Customer Loyalty = 1.368 + 0.352 (Perceived CSR practices) + 0.281 (Perceived corporate reputation) + 0.089
This analysis shows that perceived CSR practices taken as β_1 showed higher influence and has high portion in equation on the other hand β_2 perceived corporate reputation showed a lower score of 0.281 with a standard error of 0.089. Higher value of constant 1.368 also evaluates that there are many other factor which have more effects on the customer loyalty equation. From the above table it is clear that both the independent variables perceived CSR practices and perceived corporate reputation have significant positive impact on the dependent variables consumers' loyalty. Thus both hypotheses H1 and H2 are supported.

5. CONCLUSION

On the basis of above findings it is concluded that, in the under developing countries like Pakistan there is a missing link between the corporate social responsibility and the consumer perception. By understanding the results of above finding it clearly provides link between the perception and the corporate social responsibility initiatives by the organizations. This study emphasizes the organization to put more efforts and resources for the practical implementation of CSR functions rather than only verbal talks. Additionally the recent studies empirically display a positive association between CSR and customer loyalty [24, 25, 26, 27]. Most studies suggest that CSR initiatives directly result into generating more consumer loyalty, without mediating variables. Conversely, due to the inherent complexity of the construct, it is cynical that CSR will be considered mechanically by consumers during buying or purchasing of the products or even strengthening its ties with the firm [22].

The research scope of this study is based on Perceived corporate reputation (PCR) from consumer's point of view without taking into consideration other institutional variables including firm size, its structure and profitability etc. Forthcoming researchers can attempt to expand these shortcomings by adding more control variables, gauging more samples through several industries, and witnessing research themes across different time points. This would help them to measure the candid effects of PCR and CSR.

6. Limitations and Future Research

Though most of our assumptions are reinforced. However, this study has a few limitations that offer prospects for further research. One of the most imperative limitations of this study is that it deliberates only one service perspective (i.e. retailing). Supplementary research should probe CSR-effects relations in other service sectors like financial services with reputational issues. Another limitation is that the extant research puts emphasis on nonmonetary consumer outcomes. However, [28] designate a positive link between CSR and a firm's monetary performance. Future research might explore ample zones like a wide range of stakeholders should be surveyed utilizing related approach assumed in this study. Only consumers were surveyed during the existing project while ignoring the rest of the other participants like employees and suppliers who might strengthen the understanding of both CSR and other variables.

Acknowledgment:

The authors declare that they have no conflicts of interest in this research.

REFERENCES

1. Smith, N. . (2003). Corporate social responsibility: whether or how? *California Management Review*, 45, 52–76.
2. Bhattacharya, C. B., & Sen, S. (2003a). Consumer-Company Identification: A Framework for Understanding Consumers' Relationships with Companies. *Journal of Marketing*, 67(2), 76–88. doi:10.2307/30040524
3. Worcester, R. (2009). Reflections on corporate reputations. *Management Decision*, 47, 573–89.
4. Zhang, J., Beatty, S., & Walsh, G. (2008). Review and future directions of cross-cultural consumer services research. *Journal of Business Research*, 61(3), 211–24.
5. Schwartz, M. S. (2005). Universal Moral Values for Corporate Codes of Ethics. *Journal of Business Ethics*, 59(1-2), 27–44. doi:10.1007/s10551-005-3403-2.
6. Ajzen I. (1985). From intentions to actions: a theory of planned behavior. In: Kuhl J, Beckman J, editors. *Action-control: from cognition to behavior*. Springer, 11–39.
7. Stern, P., Dietz, T., Guagnano GA, & Kalof L. (1999). A value belief norm theory of support for social movements: the case of environmental concern. *Hum Ecol Rev*, 6, 81–97.
8. Fraj E, & Martinez E. (2006). Environmental values and lifestyles as determining factors of ecological consumer behaviour: an empirical analysis. *J Consum Mark*, 23(3), 133–44.
9. Shafer, W., Morris, R., & Ketchand, A. (2001). Effects of personal values on auditors' ethical decisions. *Acc Audit Account J*, 14(3), 254–77.

10. Koo DM. (2005). The effects of personality variables and values on pro-environmental product purchase and recycling behavior. *J Glob Acad Mark Sci*, 5, 171–204.
11. Basil, D., & Weber, D. (2006). Values motivation and concern for appearances: the effect of personality traits on responses to corporate social responsibility. *Int J Nonprofit Volunt Sect Mark*, 11(1), 61–72.
12. Siltaoja, M. (2006). Value priorities as combining core factors between CSR and reputation—a qualitative study. *J Bus Ethics*, 68(1), 91–111.
13. Cui, Y., Trent, E. S., Sullivan, P. M., & Matiru, G. N. (2003). Cause-related marketing: how generation Y responds. *International Journal of Retail & Distribution Management*, 31(6), 310–320.
14. Yoon, Y., Zeynep, G. ., & Schwarz, N. (2006). The effect of corporate social responsibility (CSR) activities on companies with bad reputations. *Journal of Consumer Psychology*, 16(4), 377–390.
15. Brown, T., & Dacin, P. A. (1997). The company and the product: Corporate associations and consumer product responses. *Journal of Marketing*, 61(1), 68–84.
16. Griffin, J. J., & Mahon, J. F. (1997). The Corporate Social Performance and Corporate Financial Performance Debate Twenty-Five Years of Incomparable Research. *Business & Society*, 36(1), 5–31.
17. Wright, P., & Ferris, S. P. (1997). Agency Conflict and Corporate Strategy: The Effect of Divestment on Corporate Value. *Strategic Management Journal*, 18(1), 77–83.
18. Becker-Olsen, K. L., Cudmore, B. A., & Hill, R. P. (2006). The impact of perceived corporate social responsibility on consumer behavior. *Journal of Business Research*, 59(1), 46–53.
19. Lass, P., & Hart, S. (2004). National Cultures, Values and Lifestyles Influencing Consumers' Perception towards Sexual Imagery in Alcohol Advertising: An Exploratory Study in the UK, Germany and Italy. *Journal of Marketing Management*, 20(5-6), 607–623.
20. Luo, X., & Bhattacharya, C. . (2006). Corporate Social Responsibility, Customer Satisfaction, and Market Value. *Journal of Marketing*, 70(4), 1–18.
21. Bhattacharya, C. B., & Sen, S. (2004). Doing better at doing good: when, why, and how consumers respond to corporate social initiatives. *California Management Review*, 47, 9–24.
22. Bhattacharya, C. B., & Sen, S. (2003b). Consumer-Company Identification: A Framework for Understanding Consumers' Relationships with Companies. *Journal of Marketing*, 67(2), 76–88.
23. Gardberg, N., & Fombrun, C. J. (2006). Creating intangible assets across institutional environments. *Academy of Management Review*, 31(2), 329–46.
24. García de los Salmones, Rodríguez del Bosque, & Herrero. (2005). Influence of corporate social responsibility on loyalty and valuation of services. *Journal of Business Ethics*, 61, 369–385.
25. He, H., & Li, Y. (2011). CSR and Service Brand: The Mediating Effect of Brand Identification and Moderating Effect of Service Quality. *Journal of Business Ethics*, 100(4), 673–688.
26. Marin, L., Ruiz, S., & Rubio, A. (2009). The Role of Identity Salience in the Effects of Corporate Social Responsibility on Consumer Behavior. *Journal of Business Ethics*, 84(1), 65–78.
27. Perez, Rodríguez del Bosque, & García de los Salmones. (2012). The effect of corporate associations on consumer behavior. *European Journal of Marketing*, 47 (1), 218–238.
28. McWilliams, A., & Siegel, D. (2001). Corporate Social Responsibility: A Theory of the Firm Perspective. *The Academy of Management Review*, 26(1), 117–127.