

Influence of Perceived CSR Activities on Customer Loyalty: An Empirical Study on Leading Electronics Manufacturer of India

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Abstract

The purpose of this paper is to examine how the perceived CSR activities influence customer loyalty with reference to India's leading electronics manufacturer. The study used a quantitative approach in cross-sectional design. A survey among Indian customers of electronics was conducted as a method for data collection. After data collection, a statistical data analysis was performed using SPSS software. Results confirm a positive relationship between perceived CSR and customer loyalty on the leading Indian electronics company. From a theoretical perspective, this study broadens our knowledge base by generating deeper insights into the concepts of CSR and consumer behavior. From a managerial perspective, this study suggests that proper CSR positioning leads to an important competitive advantage. It also suggests intrinsically driven CSR activities.

Key Words: Corporate Social Responsibility (CSR), customer loyalty, Indian Electronics Company

I. Introduction

Customers are one of the most eminent stakeholder groups. It is evident from past researches that the costs of retaining existing customers are substantially lower than those of enticing new ones. Customer retention and loyalty are thus major affairs on management's schedule. By engendering and conserving customer loyalty, a firm flourishes long term symbiotic relationship with its customers (Pan et al., 2011). Today's

customers are characterized as sophisticated, environmentally and socially conscious (Froster, 2007). They hope not only for socially responsible behavior from companies but also keen to honor this behavior. In this regard, Corporate Social Responsibility (CSR) initiatives are one way of engendering and maintaining customer loyalty. The European Commission (2011) defines CSR as “the responsibility of enterprises for their impacts on society” (as cited by Berg.H and Lidfors. L, 2012).

A number of studies have been conducted which indicate that well implemented CSR initiatives can improve customer loyalty (Aasad, 2010; Pakseresht, 2010; Saunders, 2006). The topic of CSR is highly relevant in Indian context because news regarding bad working conditions, child labor as well as environmental degradation and health hazards due to bad practices of companies often come onto surface. Besides that many Indian companies are still far away from this concept. According to latest study it was found that 60% respondents of sample comprising of 142 managers, directors and CEOs were dissatisfied with their firm’s CSR activities and wanted to improve them. Main objective of this study is to ascertain how CSR efforts impact customer loyalty in a given company and thereby attempts to enhance the understanding of CSR activities as an emerging marketing tool to create competitive advantage.

The paper proceeds as follows. The following section provides an overview of literature pertaining to CSR and customer loyalty and provides a theoretical framework with corresponding hypotheses. Section three presents an overview of conceptual model. Section four presents the methodology used in this study. Section five discusses the results/findings. The paper ends with research implications and the limitations of present study.

II. Theoretical Framework

A. Corporate Social Responsibility (CSR)

CSR is a well known concept, which originated back in 1930-40's. However CSR became a known concept already in 1930's but modern era of CSR began in 1950's. A book "Social Responsibilities of Businessman" was published in the year 1953 by inventor of CSR, Howard Bowen. In 1960 Davis classified two types of CSR viz., socio-economic and socio-human obligations. In 1963 Mc. Guire stated that, CSR goes beyond economic and legal requirements, for eg., community welfare and education (Carroll, 1979). The growth of CSR gained drastic momentum in 1970's because of growing interest among businessmen (Rahman, 2011). Therefore flood of CSR definitions came (Carroll, 1999). In 1971 Harold L. Johnson presented four different views and definitions of CSR in his book named "Business in Contemporary Society: Framework and Issues" (Rahman, 2011). Three concentric circles approach of social responsibility was given by the committee for economic development in 1971. Innermost circle includes the basic responsibilities for a company like providing employment, varied products and economic growth. Middle circle encompasses responsibility of employing the economic function with an awareness of altering social values and priorities like respect for environmental protection, employee relations etc. the outermost circle embraces newly evolving and still indistinct responsibilities like supporting the society with major social problems, such as poverty and urban blight (CED, 1971, cited in Carroll, 1999). In 1979 Carroll presented a new model covering 4 different aspects of CSR which are economic, legal, ethical and discretionary. This model states that CSR might be economically and socially aligned together (Carroll 1979; Pinkston & Carroll, 1996). The association of CSR with profitability was first identified and studied by Cochran and Wood in 1984. In 1985 Aupperle et al. also studied the relation between CSR and profitability but could not find out any significant relation between two. In 1984

Peter Drucker advanced new meaning of CSR: turn social responsibilities into business opportunities to explain the relation between CSR and financial performance (Berg.H and Lidfors.L, 2012). In 1991 Carroll developed a CSR pyramid, consisting of four components economic, legal, ethical and philanthropic.

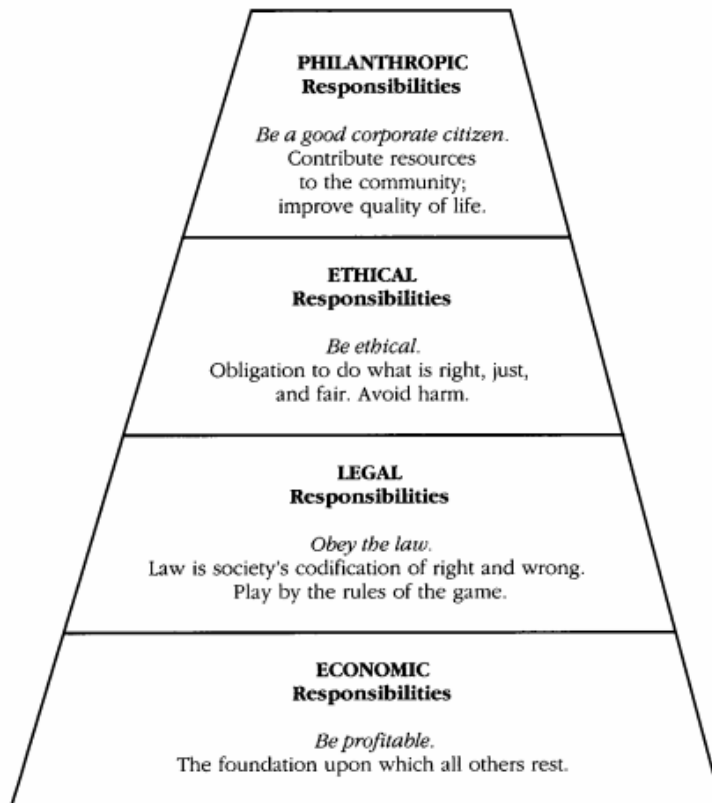


Figure 1: CSR Pyramid (adopted from Berg.H & Lidfors.L, 2012)

Triple bottom line concept was proposed by Elkington in 1998 which drew attention towards a new aspect of CSR- environmental issue. This concept was directed to three issues namely people (social responsibility), planet (environmental responsibility), and profit (economic responsibility). Slaper and Hall (2011) asserted that a socially

responsible company creates economic and social value for the society along with environmental conservation. Baker (2001) stated that environment, community, workplace and marketplace are four main zones in society which are impacted by CSR activities of a firm. He suggested that a company should develop and execute carefully planned CSR initiatives to distinguish itself as a leader in terms of being responsible business entity, taking all major shareholder dimensions into perspective, rather than solely focusing on the shareholder's maximization objective (Raman.M; Lins.W & Nair.S, 2012).



Figure 2: Baker's Model 2001 (adopted from Murali Raman et al, 2012)

Saunders (2006) declared that companies that have adopted CSR as central part of their businesses are enjoying its advantages like company sustainability, reduced liabilities and costs, enhanced brand image etc. Businesses are now aware that CSR is impossible to unravel from their reputation and brand equity (Ahearne, Bhattacharya and Gruen, 2010). In 21st century the focus of CSR has shifted to customer. In 2001 Mohr et al. studied the association between CSR and consumer purchasing behavior and concluded that respondents were inclined towards socially responsible companies. Becker-Olsen and

Hill (2005) stated that consumers expect firms to be involved in social initiatives and are willing to reward their efforts by purchasing their products. Another new trend of this time duration is the utilization of CSR as competitive advantage. According to Porter and Kramer (2006) CSR can become a medium for observable social progress. Evolution of CSR over the years is shown below:

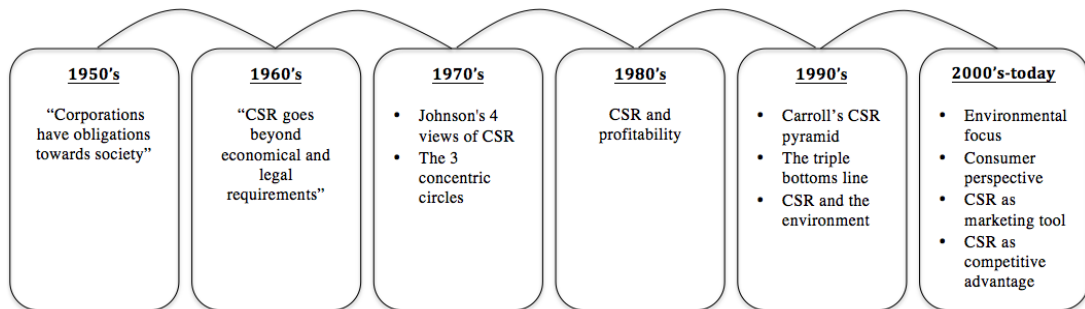


Figure 3: CSR Development Over Years (adopted from Berg. H & Lidfors. L , 2012)

B. Customer Loyalty

Customer loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred/service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver,1997). Loyalty is associated with firm's success and profitability (Eakuru and Mat,2008). Review of literature shows three approaches for loyalty namely stochastic (focused on behavioral aspect of loyalty), deterministic (focused on attitudinal/emotional aspect of loyalty) and composite (combined aspect). So loyalty is said to evolve from the act of purchase, to customer satisfaction, to customer trust, to customer commitment to finally customer loyalty (Tucker,1964; Jacoby and Kyner, 1973; Dick and Basu,1994; Odin et al., 2001; Chaudhuri and Holbrook, 2001; Uncles et al., 2003; East et al.,2005; Rundle-Thiele,2006; Bandyopadhyay and Martell,2007, as cited in Berg.H and Lidfors.L,2012). A dynamic model of loyalty is shown below:

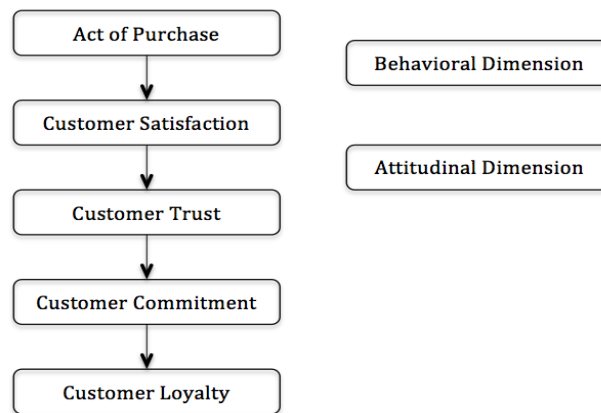


Figure 4: A Dynamic Model of Customer Loyalty (adopted from Costabile, 2001)

Berg. H and Lidfors. L (2012) classified available antecedents of customer loyalty under two heads- customer related antecedents and product related antecedents. Customer related factors which impact loyalty are overall satisfaction with product (Dick and Basu, 1994; Heskett et al., 1994; Oliver 1997) and trustworthiness of the firm (Chaudhuri and Holbrook, 2001). Product quality and brand image are product related factors which influence loyalty (Pan et al., 2011). Boulding et al. (1993) through his study demonstrated a positive association between product quality, customer satisfaction and customer loyalty. Better product quality may strengthen customer satisfaction, customer loyalty along with firm's gain and performance (Rust et al., 1995). Purchase intentions are positively influenced by customer satisfaction (Cronin and Taylor, 1992). Customer loyalty is being influenced by most important factor called customer satisfaction in case of market oriented firms (Kandampully and Suhartanto, 2000). Image of firm is being impacted by the experiences of customer with the product (Gronroos, 1983). A good image incite customer to purchase product of company and thereby indicate that buying decisions are guided by awareness and image of brand of the product (Liu et al., 2010).

Trust is a key factor in shaping and maintaining relationships (Bendapudi and Berry,1997; Doney and Cannon,1997).

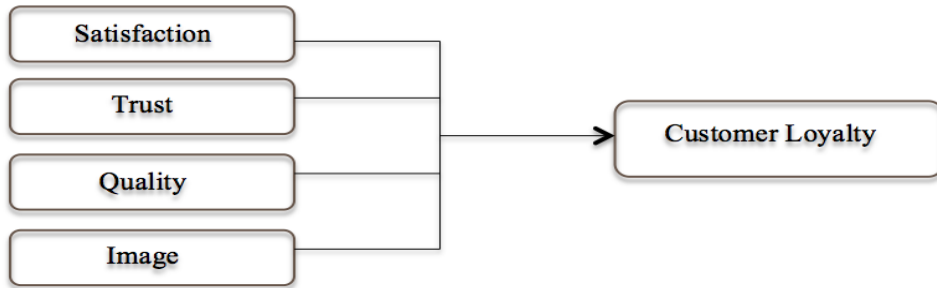


Figure 5: The Antecedents of Customer Loyalty (adopted from Berg,H & Lidfors.L,2012)

C. CSR and Customer Loyalty

Garcia de los Salmenes et al. (2005) measured the direct and indirect relationship between CSR and customer loyalty in the telecom industry and concluded that there is no direct relation between them. However, indirectly CSR influence customer loyalty. Liu et al (2010) stated that though there is no direct correlation between CSR and customer loyalty but product quality, trust, image and satisfaction have significant positive influence on customer loyalty. Cause related marketing- an aspect of CSR effort might be used as a tool for firms in order to build reputation and evoke customer loyalty (Stewart, 1998, cited in Simcic Bronn and Belliu Vrioni, 2001). Consumers are likely to have positive and favorable beliefs for CSR brands and they reward them by showing loyalty and advocacy (Du et al., 2007). Consumers are more prompt in buying products from companies engaged in social causes (Ross et al., 1992). Brown and Dacin (1997) stated that positive CSR associations lead to positive evaluations of the firm and therefore produce positive effects on product evaluation and satisfaction. By strategy and communication agency it was found that 80% of customers indicated that they trust corporate which support good causes (cited in Berg. H and Lidfors.L, 2012).

Bhattacharya (2001) stated that attitude of customers towards the company is improved if company creates positive image by engaging itself in good corporate social behavior.

Becker-Olson et al (2006) asserted that CSR activities influence customer trust only when three basic requirements namely perceived fit between the product and the promoted good cause, the perceived corporate motive and the timing of the promotion are met. Customer attitude is linked with CSR. An equal quality product can be differentiated from its competitors on the ground of involvement of company in CSR activities and information about that (Folkes and Kamins, 1999). Bhattacharya and Sen (2004) asserted that information about company's ethical behavior has minimal impact on product evaluation in case of inferior product. He also identified that positive CSR activities are resulted into WOM behavior which has positive effect on company image.

On the basis of above discussions following hypotheses are put forward—

H₁: CSR efforts positively influence customer satisfaction.

H₂: CSR efforts positively influence customer trust.

H₃: CSR efforts positively influence perceived quality.

H₄: CSR efforts positively influence brand image.

III. Overview of Conceptual Model

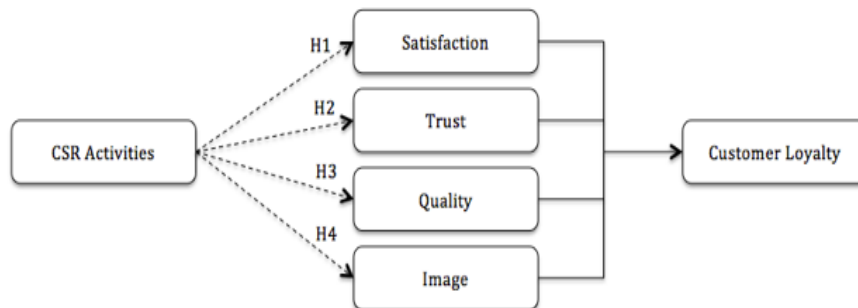


Figure 6: Proposed Research Model

IV. Methodology

The study used a quantitative approach in cross-sectional design. A web based survey (n=130) was conducted among customers of electronics in India. Questionnaire was being sent directly to the respondents by email. 18 questionnaires were not used in the analyses because they were not complete so it resulted in final number of 112 usable questionnaires. Questionnaire was divided into two sections. Section 1 includes items related to constructs and section 2 consists of demographic details of participants. All the questions related to constructs were measured on scale. The items used in this study were adopted from previous researchers named Mayer et al., 1995; Selnes & Sallis, 2003; Sirdeshmuk et al., 2002; Flavian et al., 2005; Fandos & Flavian, 2006; Danish Commerce & Companies agency, 2005. Convenience and snowball sampling techniques were used in study.

V. Findings

Data collected from questionnaire was put into regression analysis whose results (see Appendix) show that the perceived CSR activities are useful for predicting customer loyalty through customer satisfaction, perceived product quality, perceived brand image and customer trust at 95% significance level ($p < 0.05$). Therefore all the hypotheses are accepted and model is found useful. Most significant relationship was measured between perceived CSR activities and customer trust with an $R^2 = 0.468$. This means that 46.8% of variance in trust is explained by the variance in CSR.

Table 1

Predictor	Hypothesis	p-value	supported	Adjusted R-square	Beta
CSR	H1:satisfaction	0.000	yes	0.301	0.932
	H2:quality	0.007	yes	0.055	0.476
	H3:image	0.000	yes	0.185	0.771
	H4:trust	0.000	yes	0.468	0.882

VI. Research Implications and Limitations

From a theoretical perspective, this study broadens our knowledge base by generating deeper insights into the concept of CSR and consumer behavior. It is adding to our knowledge about the significance of understanding the positive influence that CSR efforts might bring. Since this study is focused on leading Indian electronics manufacturer, an understanding of positive link between involvement in CSR initiatives and customer loyalty is developed in this particular industry. From a managerial perspective, the study indicates that CSR can be used to build competitive advantage by blossoming customer loyalty. It also suggests that CSR activities should be intrinsically driven. Management should try to position CSR properly in order to capture market share and reap reputational benefits of being socially responsible corporate.

This research has some limitations. Convenience and snowball sampling techniques were used so representativeness of data collected is unknown. The size of sample is also small which enhance the probability of sampling error. The study has geographical as well as industry limitations too.

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Appendix

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.688 ^a	.473	.468	.58837

a. Predictors: (Constant), CSR

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	34.197	1	34.197	98.782	.000 ^a
Residual	38.080	110	.346		
Total	72.277	111			

a. Predictors: (Constant), s

b. Dependent Variable: trust

Coefficients^a

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.401	.334		1.202	.232
	csr	.882	.089	.688	9.939	.000

a. Dependent Variable: trust

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.555 ^a	.308	.301	.88374

a. Predictors: (Constant), csr

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	38.198	1	38.198	48.910	.000 ^a
Residual	85.909	110	.781		
Total	124.107	111			

a. Predictors: (Constant), CSR

b. Dependent Variable: satisfaction

Coefficients ^a						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.794	.501		-1.585	.116
	csr	.932	.133	.555	6.994	.000

a. Dependent Variable: satisfaction

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.253 ^a	.064	.055	1.152

a. Predictors: (Constant), csr

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.950	1	9.950	7.496	.007 ^a
	Residual	146.014	110	1.327		
	Total	155.964	111			

a. Predictors: (Constant), CSR

b. Dependent Variable: perceived_product_quality

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.950	1	9.950	7.496	.007 ^a
	Residual	146.014	110	1.327		
	Total	155.964	111			

a. Predictors: (Constant), CSR

b. Dependent Variable: perceived_product_quality

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.439 ^a	.192	.185	.998
a. Predictors: (Constant), CSR				

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.123	1	26.123	26.220	.000 ^a
	Residual	109.592	110	0.996		
	Total	135.714	111			

a. Predictors: (Constant), CSR

b. Dependent Variable: perceived_image

Coefficients ^a						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.786	0.566		1.389	0.168
	csr	0.771	0.151	0.439	5.121	0.000

a. Dependent Variable: perceived_image