Does Customer Loyalty Depend on Corporate Social Responsibility?

Milena Stanisavljević
Faculty of Technical Sciences Čačak, University of Kragujevac, Serbia
milena.stanisavljevic@ftn.kg.ac.rs

Abstract

This paper presents the results of a study conducted to examine the dependence of customer loyalty on corporate social responsibility (CSR). CSR is a good opportunity for a company’s differentiation, but only if customers value the company’s efforts in this field. Loyalty is a primary goal of each company, but it is influenced by numerous factors. The goal of this paper was to examine if CSR influences customer loyalty as one possible factor. Based on the presented results, management recommendations are provided concerning business strategy, mission, and vision formulation, so companies can fulfill customers’ interests and gain their loyalty.

Keywords: corporate social responsibility, loyalty, strategy, management

Introduction

Increasing market competitiveness demands a company’s constant attention to improving products and services that could satisfy customers’ constantly growing demands. Price and quality are not the only factors that influence purchase decisions. In addition to customers, a large number of stakeholders (shareholders, suppliers, government, local community, etc.) set numerous requirements before the companies, which companies need to fulfill if they want to keep their competitive position and develop. Business strategy needs to recognize the interests of all of them, so management is facing new, bigger challenges than before. One possible option for companies may be to develop business strategy based on the concept of CSR, which means doing business with respect to the interests of all stakeholders and social norms.

A growing number of companies in Serbia have adopted this business concept, actively participating in the life of communities and society, but people are not sufficiently informed about the socially responsible activities of companies. This research aims to demonstrate if customers in Serbia have heard about CSR and if CSR influences their purchasing decisions and loyalty. Loyal customers are the greatest value to companies, which invest much effort in retaining customers because it has been proven that it is cheaper to retain existing customers than attract new ones.

The contribution of this paper is reflected in the possibility to formulate recommendations for management to enable them to adapt their business strategy with respect to certain dimensions of CSR, fulfill the requirements of customers, and create long-term relationships and loyalty.
Literature Review

Corporate social responsibility. Until the 1960s, profit maximization was considered the primary business goal. However, in the 1970s and 1980s, due to the higher intensity of globalization, IT development, higher level of people’s education, strengthening of associations for the protection of human rights, associations for environment protection, and so on, pressures increased for companies to start doing business while considering the well-being of the society and environment. The concept of corporate social responsibility (CSR) started to develop during this time. In addition to profits, companies were becoming more interested in environmental protection, education, and customer safety in the sense of purchasing and using products and services. Regardless of these changes, it should be emphasized that profit and social responsibility are not mutually exclusive goals, but complementary. A lot of companies are profitable and socially responsible at the same time. If the products and services are in accordance with social and other norms, then the conditions for long-term relationships with customers are created, which will result in increased profits.

As a growing number of companies adopt the concept of CSR, there is a need to explain what it really means. The concept of CSR is based on the stakeholder theory of corporate governance (Ivanović-Đukić, 2011; Srbiljnović, 2012; Weimer & Pape, 1999), where the primary company’s goal is not only profit maximization, but also the satisfaction of all stakeholders’ interests. Socially responsible behavior means caring about the interests of a large number of stakeholders and society in general (Maden, Arikan, Telci, & Kantur, 2012). The concept of CSR can be defined in different ways. Kotler and Lee (2005, p. 3) explained CSR as “a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.” Thus, discretionary practices refer to activities not mandated by law. It is a voluntary commitment of one company and its decision to choose and apply such business practices and much these contributions, while community well-being refers to the conditions in which people live and the ecological issues. The European Commission’s (2011) definition provides more details: “CSR is a concept by which the company integrates the care for society and environment in its business activities and interaction with its stakeholders on a voluntary basis” (p. 3). CSR involves a wide spectrum of company’s activities focused on the well-being of all stakeholders, like investors, humanitarian organizations, employees, suppliers, customers, and future generations (Geoffrey, Sprinkle & Maines, 2010, p. 446).

Carroll (1979, 1991) gave a specific definition of CSR that consisted of four dimensions for companies to be good corporate citizens: economic, legal, ethical, and philanthropic responsibilities. A socially responsible company should strive to make profits, obey the law, be ethical, and be a good corporate citizen (Carroll, 1991, p. 43). This kind of CSR definition is known as the pyramid of CSR, and it is very accepted among researchers in this field and the most frequently cited in domestic and foreign literature (García de los Salmones, Herrero, & Rodríguez del Bosque, 2005; Ivanović-Đukić, 2011; Lee, Park, Rapert & Newman, 2012; Park, Lee & Kim, 2014; Perez, García de los Salmones, & Rodríguez del Bosque, 2012; Srbiljnović, 2012), which is why this research is based on this definition of CSR. Some authors have suggested a different order in Carroll’s pyramid due to different cultural, historical, and religious traditions (Crane, Matten, & Spence, 2006; Visser, 2006). Visser (2006) also considered that Carroll gave one integrated model for corporate citizenship, business ethics, and stakeholder management that lacked clarity and excluded care about environment. Hockerts, Casanova, Gradillas, Sloan, and Jensen (2008) criticized this framework by arguing that there was no need to represent CSR as a hierarchy. Yet Carroll and Shabana (2010, p. 90) pointed out that the four categories of CSR address the motivations for initiatives in the category and are also useful for identifying specific kinds of benefits that flow back to companies, as well as society, in their fulfillment. These concepts can also be overlapping and interrelated in their interpretation and application, but they are helpful for sorting out the specific types of benefits that businesses receive (Carroll & Shabana, 2010, p. 90). In this paper, the analysis is based on Carroll’s original pyramid of CSR.

Figure 1. Pyramid of CSR

Although these four responsibilities have always existed in companies, the history of doing business shows that companies have emphasized economic responsibility first, then legal, and later on care for ethical and philanthropic aspects of companies. The first dimension of CSR is economic responsibility. Companies are, before everything, the basic economic units in society; as such, they have a responsibility to produce the goods and services that society desires (Carroll, 1979, 1991). Satisfying customers’ needs should be followed by making profits. Making profits is not generally a negative goal, but it is a precondition for satisfying the expectations of shareholders and owners as well as society and the environment. Profits are necessary both to reward investors/owners and to ensure business growth when profits are reinvested back into the business (Carroll, 2016, p. 3). Economic responsibility refers to the obligations of a company to make its business productive and profitable while maintaining wealth (García de los Salmones et al., 2005, p. 371).

Society expects companies to fulfill their economic responsibility with respect to laws and regulations as defined by the authorities (Park et al., 2014), which is why legal responsibility is the next level in the pyramid of CSR. The pyramid highlights the historical development of CSR dimensions, but before everything, economic and legal responsibility are accomplished at the same time. Companies are expected to be dedicated to their economic mission within the legal framework (Carroll, 1979, 1991). Companies are expected and required to comply with laws and regulations as a condition of operating (Carroll, 2016, p. 3). Disrespect of the law and regulations has a negative influence on customers’ attitudes toward the company and the company’s reputation, and the company’s sales could be significantly reduced (Park et al., 2014).

Ethical responsibility is incorporated in the previous two dimensions; it is characterized by behavior and activities that are not part of the law, but that are expected or prohibited by society (Carroll, 1979, 2016). It refers to standards, norms, and expectations that employees, customers, shareholders, and society consider fair, just, or for the protection of shareholders’ moral rights (Carroll, 1991, p. 41). Society expects companies to go above the legal requirements. Ethical responsibility could be understood as the adoption of new norms and values that society expects from companies, although those values and norms could reflect a higher standard of performance than those required by law (Carroll, 1991, p. 41). Unethical behavior happens when an individual or company does something at the expense of society. Companies should comply with ethical norms, because the public expects them to; if those expectations are not satisfied, the company could be subjected to criticism, negative publicity, purchasing boycotts, etc. (Srbljinović, 2012, p. 165).

Philanthropic responsibility refers to the company’s commitment to voluntarily help threatened social groups and to participate in social and ecological problem solving in society. Philanthropy refers to society’s expectation that a company should do business as a “good corporate citizen” (Carroll, 1991, p. 42). It includes activities that contribute and help the arts, culture, medicine, science, education, and community improvement (Seifert, Morris & Bartkus, 2004). Most often it includes donations for various purposes, but corporate philanthropy is not limited to just monetary donations. Many companies encourage philanthropic activities by their employees and customers through various forms of collaboration (Carroll & Shabana, 2010, p. 96). Philanthropic activities are voluntary and non-binding, and they are a matter of individual assessment and choice (Carroll, 1979).

Companies decide to embrace CSR as the foundation for their business for numerous reasons. Socially responsible business results in positive public opinion and a higher status, which enables the company to differentiate itself in the market and find a way to attract a greater number of customers (Carroll, 2015). Socially responsible companies attract, motivate, and retain employees as well as investors (Carroll, 2015; Čeha, 2013; Geoffrey et al., 2010; Peterlin, Dimovski, Uhan & Penger, 2011). Activities such as caring for the environment, employees, and any kind of help toward the community are becoming important criteria for customers’ decision making (Marin, Ruiz, & Rubio, 2009; Srbljinović, 2012). Socially responsible companies have higher productivity due to employees’ satisfaction and lower employee fluctuation costs (Kotler & Lee, 2005). CSR positively affects customers only if its activities are persuasive and customers consider the company to have sincere intentions. It can increase trust and build relationships between the company and its customers.

Customer loyalty. Customer loyalty is the basic goal of each company, especially in the conditions of strong competition, economic crisis, and international scandals. It is considered a vital objective for a company’s survival and growth as well as an important basis for developing a sustainable competitive advantage (Chung, Yu, Choi & Shin, 2015). Loyalty can be defined as a customer’s unconditional commitment to the company and his or her strong relationship with the brand, which is not likely to be affected under normal circumstances (Maheshwari, Lodorfos, & Jacobsen, 2014, p. 16). Customer loyalty refers to the intention to apply a set of behavioral forms that signal the motivation to keep the relationship with a
certain company, which includes increased spending on the company’s products, positive word of mouth, and repeated purchases (Sirdeshmukh, Japdíg, & Berry, 2002). Customers are limited and the most valuable resource of each company to have a direct impact on the company’s profit level. Research has shown that a 5% increase in customer loyalty could increase profits by 25% to 85% (Kandampully & Suhartanto, 2000, p. 346). A 2% increase of customer retention has almost the same effect as a 10% cost reduction (Marinković, 2012, p. 155).

There are two dimensions to customer loyalty: behavioral and attitudinal (Akbar & Parvez, 2009; Chen, Chang & Lin, 2012; Day, 1969; García de los Salmones et al., 2005; Kandampully & Suhartanto, 2000; Perez et al., 2012). The behavioral dimension refers to a customer’s repeat purchase behavior, indicating a preference for a specific brand over time (Kandampully & Suhartanto, 2000, p. 347). But repurchasing does not mean satisfaction, and it could be caused by a lack of alternatives or barriers to change. This behavior leads to “spurious loyalty” (Day, 1969, p. 30), which occurs when the repurchase happens even if company has a bad image (Perez et al., 2012, p. 224). The attitudinal dimension refers to a customer’s intention to repurchase and recommend (Kandampully & Suhartanto, 2000, p. 347). This dimension means that a positive evaluation of the company is made and that an emotional link exists between the customer and the company that generates a real loyalty. It is linked to active loyalty, which leads to positive word of mouth (Perez et al., 2012, p. 224). It could refer to commitment to a brand, which can be defined as trust, esteem, or a customer’s desire to maintain the relationship or acquire the same brand (García de los Salmones et al., 2005, p. 373).

Loyal customers bring various benefits to the company, but the creation of customer loyalty is not easy; it is a long process that will not pay off initially and could even lead to losses (Marinković, 2012). But loyal customers increase their purchases of certain products over time. At the same time, they are ready to buy and use other products from the product range of the company to which they are loyal, so they are important for delivering long-term profits (Chung et al., 2015). A cost reduction in loyal customers’ services could also be achieved. They are less sensitive to price changes than other customers (Marinković, 2012). Loyal customers gladly recommend products they use to their friends and acquaintances, thereby creating and spreading positive worth of mouth, which has much more credibility and reliability than communication through media (Jobber & Fahy, 2006). Loyal customers are a very important source of new ideas for products’ and services’ quality improvement.

Customer loyalty is influenced by numerous factors (price, quality, product/service availability, satisfaction, etc.). As the goal of this research is to explain the relationship between CSR and loyalty, the focus is on this relationship. Research has shown that customers prefer products from companies involved in social causes (García de los Salmones et al., 2005, p. 373). Customers have more trust, purchase more, and prefer to recommend socially responsible companies (Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009). Numerous studies have shown a positive relationship between perceptions of CSR and customer loyalty (Aliawadi, Neslin, Luan, & Taylor, 2014; Chung et al., 2015; García de los Salmones et al., 2005; He & Li, 2011; Lee et al., 2012; Marin et al., 2009; Perez et al., 2012; Srbljinović, 2012). Customers appreciate companies’ participation in humanitarian events, programs devoted to energy conservation, sponsorship of local events, etc. These activities can influence creation of higher customer loyalty (García de los Salmones et al., 2005, p. 373).

Growing market competition means companies must search for new ways to differentiate products and attract and retain customers, so basing a business strategy on the CSR concept became a good way for companies to make a difference and stand out. Customers’ perceptions about companies’ socially responsible behavior influence their relationship with the company and its products; thus, this research examines if companies’ socially responsible behavior influences customers’ loyalty. Based on the results obtained, recommendations for business strategy formulation and CSR activities can be offered to improve companies’ position in the market and within customers’ minds.

**Research Methodology**

This research has four goals: to determine if respondents have heard about the concept of CSR, to show that CSR is not a relevant criterion for purchase decisions, to emphasize the significance of certain CSR dimensions for customers, and to highlight any statistically significant differences in perceptions of CSR dimensions among respondents with different levels of professional qualifications and show if perceptions about CSR dimensions influence variances in customer loyalty. The following research hypotheses were formulated, based on the given literature review and research goals:

H1: Most respondents have heard about the concept of CSR.

H2: Price is the most important criterion for making purchase decisions.

H3: Customers give the highest significance to the economic and legal dimensions of CSR.
H4: There is a statistically significant difference in perceptions of CSR dimensions among respondents with different levels of professional qualification.

H5. Perceptions about CSR dimensions have a statistically significant influence on customer loyalty.

H5a: Perceptions of economic and legal dimensions of CSR contribute the most to explaining the variance of loyalty.

The data were collected using questionnaires that had three parts. The first part contained questions about respondents’ sex, age, and professional qualifications. The second part referred to the CSR dimensions; this part contained 20 items, where each dimension of CSR (economic, legal, ethical and philanthropic) was represented by 5 items identified by Carroll (1991). The third part referred to customer loyalty; this part of the questionnaire contained four items often used in similar research of customer loyalty and formulated by the model of questionnaires used in the research of Zeithaml, Berry, and Parasuraman, (1996) and Sirdeshmukh et al. (2002). Respondents showed their level of agreement or disagreement for all items using a 5-point Likert scale (1 = absolutely disagree, 5 = absolutely agree).

This paper is a result of a study conducted in July 2014. The analysis was carried out on a sample of 200 mobile telephone users from Kragujevac. The questionnaires were distributed through the mail and collected until the sample reached 200.

The respondents’ sex, age, and professional qualifications are summarized in Table 1. Preliminary research was carried out to verify the suitability of the questionnaire and possibly remove any ambiguities; after consulting with professors from this field of research, the data collection process was done.

As all the variables were explained through several items, a confirmatory factor analysis was carried out. The value of the Kaiser-Meyer-Olkin measure of sampling adequacy was 0.886 (higher than 0.6), and the value of the Bartlett’s test of sphericity was statistically significant, which justified a factor analysis. The principal component analysis was carried out, as was a varimax rotation. As expected from the theoretical propositions, the results obtained showed a four-dimensional structure of CSR. All of the items had high factor loadings—higher than 0.6. The first factor included all the economic items, so this factor was labelled the economic dimension of CSR (ED), the second factor was labelled the legal dimension (LD), the third factor was labelled the ethical dimension (EtD), and the fourth factor was labelled the philanthropic dimension (PD). These dimensions comprised the four independent variables. Cronbach’s alpha coefficients were used as a measurement of reliability for each variable (independent variables = dimensions of CSR [i.e., ED, LD, EtD, PD]; dependent variable = customer loyalty [i.e., L]), and their value confirmed the internal reliability of proposed constructs (ED = 0.865, LD = 0.894, EtD = 0.844, PD = 0.857, L = 0.868).

A descriptive analysis was done to determine the significance of each CSR dimension, the relevance of purchasing criteria, and how familiar the concept of CSR was to customers. A variance analysis was done to define any statistically significant differences in perceptions of CSR dimensions among respondents with different levels of professional qualifications. A regression analysis was done to determine the influence of CSR dimensions on customer loyalty. SPSS was used for the data analysis and presentation of the results.

### Research Results

The research results showed that 69.5% of respondents were familiar with the concept of CSR. Customers gave the highest significance to the legal dimension of CSR, with an average mark of 4.19. The next highest scored dimension was economic dimension (3.989), followed by ethical (3.979) and philanthropic (3.9367) dimensions. The most important criterion for making purchase decisions was quality, followed by ecological and health dimensions of products and the price (Table 2). Corporate social responsibility ranked sixth, before product brand and packing.

A variance analysis was done to determine if statistically significant differences emerged in perceptions of CSR dimensions among respondents with different levels of professional qualifications. A Scheffe test was used to compare the
groups. A statistically significant difference in the perceptions of the philanthropic dimension emerged among respondents with different levels of professional qualifications: $F(4, 195) = 2.777, p = 0.028$. An additional analysis using a Scheffe test showed that the arithmetic mean of respondents with higher professional qualifications ($M = 3.0769, SD = 1.047$) was significantly different from respondents with secondary professional qualifications ($M = 3.9899, SD = 1.038$) and from respondents with high professional qualifications ($M = 4.0214, SD = 0.946$), for $p < 0.05$. There was no statistically significant difference in the perceptions of the economic dimension among respondents with different professional qualifications ($F(4, 195) = 1.047, p = 0.384$). The statistically significant difference among respondents with different levels of professional qualifications did not exist for the ethical dimension of CSR ($F(4, 195) = 1.745, p = 0.142$). A statistically significant difference among respondents with different levels of professional qualifications existed for the legal dimension of CSR ($F(4, 195) = 2.927, p = 0.022$). An additional comparison showed that the arithmetic mean of respondents with higher professional qualifications ($M = 3.4423, SD = 1.099$) was significantly different from those with high professional qualifications ($M = 4.3301, SD = 0.718$), for $p < 0.05$.

A multiple regression analysis was done in order to examine the influence of independent variables (perceptions about CSR dimensions) on customer loyalty and highlight which dimension contributed the most to the explanation of customer loyalty variance. In order to carry out the regression analysis, the preliminary analysis of assumptions compliance was tested; it was concluded that all data fulfilled the conditions for regression analysis. The results of this analysis are presented in Table 3.

The coefficient of determination $r^2$ was 0.195, which means that the defined model consisting of four independent variables (dimensions of CSR) explained 19.5% of the total variance of loyalty, $F(4, 195) = 11.819, p = 0.000$; thus, the given model is statistically significant. The independent variable that contributed the most to explaining the loyalty variance was the philanthropic dimension of CSR ($\beta = 0.32$, for $p = 0.000$); its influence was statistically significant. The semipartial correlation coefficient for this variable was 0.239, meaning that it explained 5.7% of the total variance of loyalty. The second independent variable that had a statistically significant influence on loyalty was the economic dimension of CSR ($\beta = 0.214$, $p = 0.003$). The semipartial correlation coefficient for this variable was 0.196, meaning that it explained 3.8% of the total variance of loyalty. The influence of the legal and ethical dimensions of CSR was not statistically significant (because $p > 0.05$).

### Discussion and Conclusion

Rapidly changing market conditions require companies to formulate a business strategy to allow the easy adaptation and maintenance as well as improvement of their competitive position. The creation of a business strategy based on the CSR concept is an important opportunity for differentiation as it considers the interests of numerous different stakeholders and is dedicated to achieving social goals and environmental protection. Carroll (1991) developed the pyramid of CSR, which included four different dimensions of CSR: economic, legal, ethical, and philanthropic. Taken together, they explain the concept of CSR. As this definition of CSR has been highly appreciated and cited among researchers in the field, the research discussed in this paper was based on this explanation of CSR.

The results of the conducted research showed that 69.5% of respondents are familiar with the CSR concept, thereby confirming H1; however, this does not mean that they really
know what this concept means and how it manifests. Similar results have been found in research in Slovenia (Peterlin et al., 2011) and Croatia (Srbljinović, 2012). The highest significance is given to the legal followed by the economic dimensions of CSR, then ethical and philanthropic, which confirmed H2. As there are numerous problems in the economy of Serbia, starting with inadequately protected employees’ rights, unsuccessful privatization, and loopholes in the law, giving the highest marks to the legal and economic dimensions of CSR seems like a logical choice. Srbljinović (2012) found different results with Serbian customers, who valued the philanthropic dimension the most, followed by the ethical, economic, and legal dimensions. CSR is ranked as the sixth (of eight) most significant criterion for decision making about purchases. The most important criteria are quality and the ecological and health dimensions of the product. Hypothesis 3 was not confirmed, but as price ranked third, it still has a high position compared to CSR, and that could be explained with a relatively low standard of living and low GDP per capita in the country.

A statistically significant difference emerged in the perceptions of the philanthropic dimension of CSR between respondents with higher qualifications and respondents with secondary qualification levels. There was also a statistically significant difference between respondents with higher qualifications and respondents with high qualification levels regarding the legal dimension of CSR, which confirmed H4.

The analysis of perceptions about CSR dimensions’ influence on customer loyalty showed that perceptions about CSR dimensions explained 19.5% of the total variance of loyalty, thereby confirming H5, while philanthropic and economic dimensions contributed the most to that explanation, which partially rejected H5a. Numerous studies have confirmed the influence of perceptions about CSR dimensions on customers’ loyalty (Ailawadi et al., 2014; Chung et al., 2015; García de los Salmones et al., 2005; He & Li, 2011; Marin et al., 2009; Perez et al., 2012; Srbljinović, 2012).

The contribution of this paper is in providing guidelines for management during business strategy formulation in terms of paying attention and emphasizing dedication to CSR, because the results showed that customers consider these activities when making purchase decisions. This research showed the level of influence of certain CSR dimensions on loyalty, suggesting those most important for creating long-term customer loyalty. Managers need to recognize that investing in CSR initiatives is an important strategic task that leads to enduring customer loyalty based on intangible company assets. In order to increase customer awareness about CSR activities, it is necessary to dedicate more attention to reporting about these activities so companies can improve their image among customers, gain their trust, and consequently ensure their loyalty.

Limitations and Future Research

Future research should be directed to the identification of specific activities that customers consider to be the most relevant and that contribute the most to the creation of an image of a socially responsible company; the recommendations for companies could be given in terms of resource allocations for such activities. Research could be expanded by including new variables in the model (such as quality of products/services, price). Using a regression analysis, the impact of these new variables respecting CSR dimensions could be determined.

The research limitations refer to the applied method of data collection because respondents were asked to express their subjective opinion about the CSR dimensions. The second limitation is the sample size and structure. More reliable results could be obtained if the sample had been bigger, the respondents had been from different geographical regions of the country, and there had been a more equal structure in the sense of professional qualifications and age.

References


Ali je zvestoba kupcev odvisna od družbene odgovornosti podjetij?

Izvleček

V prispevku so predstavljeni rezultati raziskave, ki je bila izvedena, da bi proučili odvisnost zvestobe kupcev od družbene odgovornosti podjetij. Družbena odgovornost je dobra priložnost za diferenciacijo podjetja, a le, če stranke cenijo njegova prizadevanja na tem področju. Zvestoba je primarni cilj vsakega podjetja, vendar nanjo vplivajo številni dejavniki. Cilj tega prispevka je proučiti, ali družbena odgovornost podjetij kot eden od mogočih dejavnikov vpliva na zvestobo kupcev. Na podlagi predstavljenih rezultatov je mogoče podati priporočila za upravljanje, ki zadevajo poslovno strategijo, poslanstvo in oblikovanje vizije, da bi podjetje lahko zadovoljilo interese strank in si pridobilo njihovo zvestobo.

Ključne besede: družbena odgovornost, zvestoba, strategija, menedžment