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The Impact of Corporate Social Responsibility on Customer Loyalty

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Abstract

In this paper the impact of corporate social responsibility (CSR) dimensions on customer loyalty was researched. There are three main goals of this research: to show if the customers heard about the CSR, to emphasize the significance which customers gave to certain dimensions of CSR and to show that perceptions about CSR dimensions had the influence on customer loyalty. CSR is a possibility for company's differentiation, only if customers value these efforts. CSR is explained through the concept of the Pyramid of CSR. A socially responsible company needs to be dedicated to profit making, law obedience, ethical business management and to be a good citizen. The data was gathered using questionnaires; descriptive and regression analysis were carried out. The results showed that the majority of respondents heard about CSR term. Respondents perceived legal and economic dimension of CSR as the most important. There was an impact of the perceptions of CSR dimensions on customer loyalty, especially of philanthropic and economic dimensions. Based on the presented results, management recommendations could be given in order to help defining business strategy which could help in satisfying the interests of customers and to gain their loyalty.

Keywords: corporate social responsibility, loyalty, strategy, management

JEL classification: M14, M31

Introduction

Increasing market competitiveness demands company's constant attention on improvement of products and services which could satisfy constantly growing customers' demands. But, they are not the only ones who are interested in the company's business. Companies need to fulfil the demands of large number of stakeholders if they want to keep their competitive position and to grow.

Companies need to develop their business strategy based on the concept of CSR, which means doing business with respect of interests of all stakeholders and social norms. CSR becomes increasingly important factor of company's differentiation. Growing number of companies in Serbia adopt this business concept, actively participate in the life of communities and society general, but people are not sufficiently informed about socially responsible activities of companies, so that is why this is the subject of this research. Loyal customers are the biggest value of companies, so companies invest more efforts in retention of customers.

There are three main goals of the research in this paper: to show if the customers heard about the CSR, to emphasize the significance which customers gave to certain dimensions of CSR and to show that perceptions about CSR dimensions had the influence on purchasing decisions and customer loyalty. The recommendations for business strategy formulation and for the CSR activities could be given based on the obtained results, all in order to improve competitive position of the company and in the mind of customers.

Literature review–Corporate social responsibility

CSR concept is being developed since 70's and 80's of last century, after increasing pressures from environment that companies have to deal with questions about social and environmental well-being. Beside profit, companies begin to be interested in environment protection, education and security of customers in sense of purchasing and using of products and services. If the products and services are in accordance with social norms, the preconditions for creation of long-lasting relationship with customers are made, which would lead to profit increase, too.

The interest in research of this field is growing, but as this is relatively new concept. Kotler and Lee (2005:3) explain CSR as *a commitment to improve community well-being through discretionary business practices and contributions of corporate resources*. Thereby, discretionary refers to activities that are not mandated by law. It refers to voluntary commitment of one company and its decision to choose and implement these business practices and to make these contributions, and community well-being refers to the human conditions and environmental issues. CSR includes a whole set of philanthropic and legal questions connected to the company's role in the society, all moral liabilities which maximize positive and minimize negative influence of company to social environment (García de los Salmones et al., 2005).

Carroll (1979) gives a specific definition of CSR, where CSR is consisted from four dimensions: in order to be good citizens, companies have four responsibilities: economic, legal, ethic and philanthropic. Socially responsible company should be dedicated to profit creation, law obedience, be ethical and to be a good citizen (Carroll, 1991). This kind of definition of CSR is known as the Pyramid of CSR and it is very accepted among researchers from this field and the most often cited in domestic and foreign literature (Park et al., 2014, Srblijinović, 2012, Perez et al., 2012, García de los Salmones et al., 2005), which is why this research is based on this definition of CSR.

Although these responsibilities have always existed in the companies, the history of business shows that companies have emphasized firstly their economic responsibility, which is the first dimension of CSR. Companies have responsibility to produce products and services which society needs. Economic responsibility refers to the company's liability to be productive, profitable and to keep economic wealth (García de los Salmones et al., 2005).

The society expects that companies fulfil their economic responsibility within the legal framework (Park et al., 2014). Legal responsibility is the second level in the Pyramid of CSR. Disrespect of laws and regulations have as consequence fines, damage repairs, even starting court proceedings, prison sentences for responsible, which have strong negative influence to the public and business success.

Ethical responsibility is a part of previous two, but it is characterized by behaviours and activities which are not part of legislation, but they are certainly expected or disapproved by society. It refers to standards, norms and expectations which employees, customers, shareholders and society consider fair, just or to protection of moral rights of shareholders (Carroll, 1991). The public expects that companies comply with ethical norms, but if the expectations are not fulfilled, companies could be exposed to criticism, negative publicity, reduced sales etc.

Philanthropic responsibility refers to the company's liability to voluntarily help threatened groups of society and to be included in social and ecological problem solving. Philanthropy is associated with expectations of society that companies should be „good corporate citizens“ (Carroll, 1991). Philanthropic activities are voluntary and discretionary and represent individual assessment and choice (Carroll,

1979). Although voluntary, society expects from companies to take some part in solving some social questions.

There are numerous reasons for companies to decide to make CSR a foundation of their business. Corporate responsibility results in a positive public opinion and a higher status, which enable finding a way to a greater number of customers. CSR has a positive impact on customer's assessment of the company, products and his readiness to buy a product (García de los Salmones et al., 2005, Perez et al., 2012, Marin et al., 2009). CSR will have a positive impact to customers only if the company's activities are sincere and when customers believe that company has honest intentions.

Literature review–Customer loyalty

Customer loyalty is the basic goal of each company. It shows customer's interest towards certain company during long period of time, while simultaneously recommending the company and its products/services to others (Marinković et al., 2012). It means commitment to brand or business subject which is based on positive attitude and it manifests in repeat purchase (Marinković, 2012).

Customer loyalty creation is not easy and it is a long process which in the beginning would not pay off, even it can lead to loss. But, in time loyal customers increase the purchase of given product and they are ready to start purchasing other products from the product range of the company to which they are loyal (Marinković, 2012). Loyal customers are less sensitive to price change comparing to other customer categories. Loyal customers gladly recommend the products they are using to their friends and acquaintances by spreading the positive word of mouth (Marinković, 2012, Perez et al., 2012), which has more credibility and reliability than any other way of communication.

Numerous factors influence the purchasing decisions and loyalty creation (price, quality, availability of products, satisfaction etc.). One of those is CSR which is shown in number of research where positive relation between CSR perceptions and customer loyalty was found (Ailawadi et al., 2014, Srblijinović, 2012, Perez et al., 2012, Marin et al., 2009, García de los Salmones et al., 2005).

Research methodology

This paper is a result of the research conducted in July 2014. The data were collected using questionnaires. The questionnaire, which was used in data collection, consists of three parts. The first part of the questionnaire includes basic questions about respondents. The second part refers to CSR dimensions. This part consists from 20 items, grouped so that 5 items refer to each of CSR dimensions (economic, legal, ethical and philanthropic). Items which refer to each of dimensions were formulated in accordance with the characteristics of these dimensions given by Carroll (1991) in his definition of the Pyramid of CSR. The third part refers to the customer loyalty. This part consists from 4 items which are mostly used in similar research about customer loyalty, and according to the questionnaires used in the research of Zeithaml, Berry and Parasuraman (1996) and Sirdeshmukh, Japdig and Berry (2002). The respondents showed the level of agreement/disagreement with these items on the five-level Likert scale (1 – absolutely disagree; 5 – absolutely agree).

The analysis was conducted on a sample of 200 respondents (101 males and 99 females). The preliminary research was done, in order to check the suitability of the questionnaire and to remove ambiguities, and after consultations with the researchers in this field, the process of data collection started.

Descriptive analysis was done, in order to determine the significance of each of the CSR dimensions, to see how much the concept of CSR is familiar among customers, which significance is given to each purchasing criterion, and the regression analysis, in order to determine the influence of CSR dimensions on customer loyalty. SPSS is used for data analysis and presentation of the results.

Research results

The research results showed that 69,5% of respondents is familiar with the concept of CSR. The highest significance customers gave to legal dimension of CSR, with average mark 4,19. The next best scored dimension was economic dimension (3,989), then ethical (3,979), and philanthropic (3,9367). The most important criterion for making decision about purchase was quality (average mark 4,67), then ecological and health dimension of products (4,08) and the price (4,05). Corporate social responsibility was the sixth (3,46), before product brand (3,31) and packing (3,25). Availability of products in the nearest selling point was the fourth (3,68) and image of the company was the fifth (3,6).

Multiple regression analysis was done in order to examine the influence of independent variables (perceptions about CSR dimensions) to customer loyalty and to show which dimension contributes 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 and it is concluded that all data fulfil the conditions for regression analysis. The results of this analysis are presented in Table 3.

Table 1
Influence evaluation of independent variables

Model	Standardized Coefficients	t	Sig.	Semipartial correlations coefficient
	Beta			
(Constant)		2,492	0,014	
Economic dimension	0,214	3,057	0,003	0,196
Ethical dimension	0,140	1,540	0,125	0,099
Philanthropic dimension	0,320	3,723	0,000	0,239
Legal dimension	-0,105	-1,181	0,239	-0,076

Source: Author

Coefficient of determination r^2 is 0,195, which means that defined model, which consists from four independent variables (dimensions of CSR), explains 19,5% in total variance of loyalty, $F(4, 195) = 11,819$, $p = 0,000$, which means that given model is statistically significant. Independent variable which contributes the most to explanation of loyalty variance is philanthropic dimension of CSR ($\beta = 0,32$, for $p = 0,000$), and its influence is statistically significant. Semi partial correlation coefficient for this variable is 0,239, which means that it explains 5,7% in total variance of loyalty. The second independent variable which has statistically significant influence on loyalty is economic dimension of CSR ($\beta = 0,214$, $p = 0,003$). Semi partial correlation coefficient for this variable is 0,196, which means that this economic dimension of CSR explains 3,8% in total variance of loyalty. The influence of legal and ethical dimension of CSR is not statistically significant (because $p > 0,05$).

Discussion

The results of conducted research show that 69,5% respondents are familiar with the CSR concept. Similar results are found in the research in Slovenia (Peterlin, 2011) and Croatia (Srbljinović, 2012). The highest significance is given to legal and then economic dimensions of CSR. As there are numerous problems in the economy of Serbia, starting with inadequately protected employees' rights, unsuccessful privatization, and loopholes in law, so the highest marks given to legal and economic dimension of CSR seems like logical choice. Srbljinović (2012) got different results with Croatian customers, who value the most philanthropic dimension, and then ethical, economic and legal. CSR is ranked as the sixth (from eight) most significant criterion for decision making about purchase.

The analysis of perceptions about CSR dimensions influence on customer loyalty showed that perceptions about CSR dimensions explain 19,5% of total variance of loyalty, while philanthropic and economic dimension contribute the most to that explanation. A number of research confirmed the influence of perceptions about CSR dimensions on customers' loyalty (Ailawadi et al., 2014, Srbljinović, 2012, Perez et al., 2012, Marin et al., 2009, García de los Salmones et al., 2005).

The research limitations refer to the applied method of data collection and to the sample size. More reliable results could be obtained if the sample has been bigger; the respondents have been from different geographical regions of the country and with more equal structure in sense of education and age.

Conclusion

Creation of business strategy based on CSR is a very important possibility for company's differentiation. The paper contribution reflects in giving guidance for management in sense that attention should be given to CSR during business strategy formulation and implementation because the research results show that customers count on these company's actions during decision making about purchase. Philanthropic and economic dimensions of CSR have the highest influence on loyalty, so the companies should emphasize the dedication to activities from this field.

Future research would be directed to the identification of specific activities which customers consider the most relevant and which contribute the most to the creation of image of socially responsible company, whereby the recommendations for companies could be given in sense of resource allocation to those activities. Research could be expanded by inclusion of new variables in the model (such as quality of products/services, price and so on), too.

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