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**Article**

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## MARKETING | RESEARCH ARTICLE

# Corporate social responsibility and loyalty: Intervening influence of customer satisfaction and trust

Muzammal Ilyas Sindhu<sup>1\*</sup> and Muhammad Arif<sup>1</sup>

**Abstract:** This study investigated the relationship between value relevance and ethical standards as determinants of commitment to corporate social responsibility (CSR) activities and customer loyalty with the intervening effect of customer satisfaction, corporate reputation, and trust. Multidimensional questionnaires were designed and the structural equation modeling was applied to investigate relationships. Our results provided a general picture of the theoretical process by which the sequential relationship between value relevance, ethical standards, commitment, trust, satisfaction, reputation, and loyalty. The commitment to CSR is positively influencing customer loyalty and customer satisfaction, trust, and corporate reputation also intervened in their relationships. This study is theoretical contributing as identified customer satisfaction, trust, and corporate reputation as intervening factors, while from the practical point of view, customer trust is important because it is considered as justification based on morality. It is, therefore, important that organizations should properly disseminate practical and moral information. This is a novel study in Pakistani context because it is a theoretical contribution in existing literature as well as in organizational CSR practices leading to customer satisfaction, trust, and loyalty.

### ABOUT THE AUTHORS

Muzammal Ilyas Sindhu is a PhD scholar in the Department of Management Sciences, Bahria University Islamabad, Pakistan. He also works as a lecturer at the Federal Urdu University of Arts, Science, and Technology in Islamabad, Pakistan. He has published articles in the field of standard and behavioral finance, management, and leadership.

Muhammad Arif is an experienced teacher and trainer with proven track of a successful team leader; Excellent skills of interpersonal relationships; Conducted numerous training programs in the fields of Human Resource Management and Communication; Strong areas of teaching are Human Resource Management, Management, leadership, Strategic Compensation Management, Research Methods, Readings in Management and Business Communication; also: he has 35 International Publications and attended 15 International Conferences.

### PUBLIC INTEREST STATEMENT

Corporate social responsibility is one of the most discussed global phenomena that influence organizational performance in different contexts. A field in which organizations engage with community groups, workers and the general population in such a way as to bring it a high prosperity, in addition, is an ideal approach for those companies that intend to improve their financial capacities. Socially capable associations avail more benefit, better execution, stakeholder loyalty, and better credit deals. This study expands the line of research as it explores the marvel that how corporate social responsibility influences a customer's loyalty. It is, therefore, important that organizations should properly disseminate practical and moral information. In the current scenario, stakeholder expectations are increasing over time and organizations are pressurized to carry out socially responsible activities. It is also important to establish better objectives and plans related to CSR because it transcribes good corporate reputation into financial and non-financial benefits.

**Subjects:** Corporate Governance; Corporate Social Responsibility & Business Ethics; Marketing

**Keywords:** CSR; customer loyalty; satisfaction; trust; value relevance and ethical standard; SEM

## 1. Introduction

Corporate social responsibility has been considered an essential part of managerial and administrative sciences in recent decades (Pino, Amatulli, De Angelis, & Peluso, 2016; Zhu & Zhang, 2015). Organizations are gradually participating in social activities for survival (Aguilera-Caracuel, Guerrero-Villegas, Vidal-Salazar, & Delgado-Márquez, 2015). Literature proposed the direct relationship between CSR on financial performance (Kakakhel, Ilyas, Iqbal, & Afeef, 2015), brand performance (Lai, Chiu, Yang, & Pai, 2010), customer satisfaction (Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015), and corporate political activities (Hond, Rehbein, Bakker, & Lankveld, 2014). On the other hand, customer loyalty is also considered as an important factor for organizations.

In historical researches, determining factors identified which affected customer loyalty (Oliver, 1999), including quality of service and customer trust (Liu, Guo, & Lee, 2011), the perceived price (Pasha & Waleed, 2016), reliability and responsiveness (Khuong & Dai, 2016), satisfaction and switching barriers (Shafei, Shafei, Tabaa, & Tabaa, 2016). Customer loyalty is necessary for survival in competitive global markets (Orel & Kara, 2014). Numerous studies have been conducted to identify determinants of loyalty, but corporate social responsibility is one of the integral factors that are ignored in the literature. CSR contained economic, ethical, legal, and philanthropic responsibilities that are relevant to stakeholders (Liu, Jia, & Li, 2011; Maignan & Ferrell, 2000).

Prior studies fundamentally researched on the identification of the relationship between CSR and brand performance (Lee, Park, Rapert, & Newman, 2012; McWilliams, Siegel, & Wright, 2006). Although, CSR is contributing to consumer evaluation and perception (Christopher & Luke, 2013), while much more spending on CSR activities results in a lower level of consumer awareness and companies are receiving unsatisfactory results. Therefore, it is time to investigate the determinants of customer loyalty. As a result, this study focused on the consumer perspective of CSR rather than the corporate perspective, and investigates the relationship between value relevance, and ethical standards are a determining factor in CSR engagement and customer loyalty.

In the current scenario, stakeholder expectations are increasing over time and organizations are pressurized to carry out socially responsible activities. It is also important to establish better objectives and plans related to CSR because it transcribes good corporate reputation into financial and non-financial benefits. Historical studies examined the relationship between CSR and customer loyalty with the intervening effect of customer satisfaction and trust, but it lacks corporate reputation to also intervene between CSR commitment and customer loyalty. This study contributes in such a way that customer satisfaction; corporate reputation, and trust intervene between the relationship of commitment to CSR and customer loyalty. It is important to explore the determinants of CSR, which increases customer loyalty because marketing managers might be able to incorporate such policy implications, which tends to customer loyalty.

## 2. Literature review

The basic foundation of human thought and behavior is linked to its values (Schwartz, 1994), and these are developed on the basis of personal experiences. These values could be considered as proxies of specific objects (Jansson, Marell, & Nordlund, 2010) and individuals (Olsen, Thach, & Hemphill, 2012). There are few specific and relevant standards and configurations (Kahle, 1996) for each individual and as organizational products and services offered are matched with human values, there will automatically develop a positive image with respect to that company. Therefore, it is human behavior to assess the context of CSR with the idea of human values and consumer awareness, and assessments of CSR activities are basically controlled by their own particular values (Golob, Lah, &

Jančič, 2008). It is, therefore, conceivable that consumer perceptions of an organization's CSR quality and commitment are affected when clients' personal values are coordinated with the CSR objectives or exercises of the organization.

Ethical responsibilities include work in a fair, just and correct manner (Garriga & Melé, 2004). Moral obligations have control over those activities and practices that are ordinary or rejected by society, regardless of how they cannot be systematized into regulations (Carroll, 1999). These responsibilities indicate the extent to which moral rules (Maignan, Ferrell, & Hult, 1999) and the conduct of society (Stanaland, Lwin, & Murphy, 2011) are followed by an organization that clearly indicates commitment to organizational CSR exercises. The use of services, precautionary measures elaborated the organization's code of conduct and, in addition, it is necessary to communicate clearly with consumers through statements (Murphy, 2005), because such communication indicates the organization's ethical context (Ki & Kim, 2010). It will also be important that the ethical standard also indicate the organizational commitment to CSR activities, these hypotheses could be drawn on the basis of the aforementioned rationale.

*H1: There is significant relationship between perception of organizational value relevance and organizational commitment toward CSR*

*H2: There is significant relationship between ethical standard and organizational commitment toward CSR*

The definition of Carroll (1979) is the clearest conceptualization of CSR and his research considers the financial, legal, ethical, and philanthropic responsibilities. CSR is a key figure in the achievement of monetary objectives (Garriga & Melé, 2004). It has been examining for a long time the relationship between CSR and an organization's consumer perceptions and concluded that CSR plays a vital role in determining corporate achievement that emphatically influences the evaluations and reactions of buyers to products (Brown, 1998) and services (Luo & Bhattacharya, 2006).

The perfection of corporate social responsibility plans and exercises improves the customer's attitude toward the products offered by the organization (Bhattacharya & Sen, 2003) and services that automatically induce customer evaluation (Mohr, Webb, & Harris, 2001), satisfaction (Berens, Riel, & Bruggen, 2005), corporate reputation (Sontaite-Petkeviciene, 2015). Therefore, the level of satisfaction among clients and their evaluation will increase for the organization with respect to the commitment of the CSR exercises (Mandhachitara & Poolthong, 2011). In this context, organizational CSR also creates trust among clients with supports to establish reliable interactions among participants (Coulter & Coulter, 2002). Romani and Grappi (2014) investigated the relationship between organizational CSR activities and pro-social behavior which creates trust among them. Hence, the hypotheses are constructed on the basis of the above-mentioned rationale;

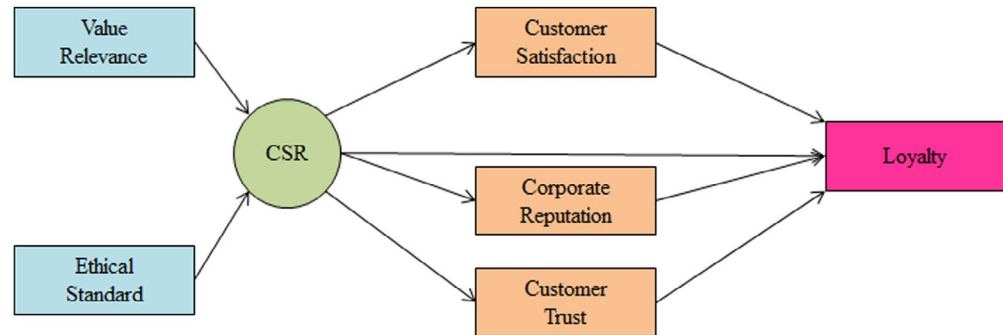
*H3: There is significant relationship between organizational commitment toward CSR and consumer satisfaction*

*H4: There is significant relationship between organizational commitment toward CSR and corporate reputation*

*H5: There is significant relationship between organizational commitment toward CSR and consumer trust*

Galbreath and Shum (2012) proposed that there are fewer opportunities for a direct relationship between customer satisfaction and performance that is undermined by corporate reputation. Rechinheld and Sasser (1990) proposed that customer satisfaction influences organizational performance. They justified that satisfied customers will lead to repeat purchases which is indicative of financial benefits and creates long-term loyalty with the products and services offered by organization. The commitment confidence theory explained that the degree of trust in an exchange partner's

**Figure 1. Conceptual framework.**



reliability and integrity (Morgan & Hunt, 1994). The perception of consumer confidence means that the organization is behaving favorably, ethically, legally, and responsibly (Pavlou & Fygenson, 2006). Numerous research studies proposed that consumer confidence induced positive perception of the organization (Pavlou & Chai, 2002; Pavlou & Fygenson, 2006), which is the indication that the positive and reliable consumer believes in repeat purchases. Vlachos (2012) examined that CSP effects consumer-firm emotional attachment with respect to loyalty. Confidence also has positive effects on consumer loyalty (Singh & Sirdeshmukh, 2000), while studies examined that corporate reputation enhanced the financial performance (Kotha, Rindova, & Rothaermel, 2001; Roberts & Dowling, 2002), overall performance (McIntosh, 2015). Hence, the hypotheses are constructed on the basis of the above-mentioned rationale;

*H6:* There is significant relationship between CSR and loyalty

*H7:* There is significant relationship between consumer trust and loyalty

*H8:* There is significant relationship between corporate reputation and loyalty

*H9:* There is significant relationship between consumer satisfaction and loyalty

The motivation behind this study is to investigate the extent to which an organization can improve its loyalty by implementing CSR and its strategies. There are few thoughts to support the argument that CSR inaugurates customer satisfaction and trust that enhances loyalty to the organization (Berens et al., 2005; Golob et al., 2008; Ki & Kim, 2010). CSR is a business ethics theory that contains economic, legal, ethical, and philanthropic responsibilities. The corporate ethics based on stakeholder theory seeks to involve all those affected by the organization in its decision-making process. Stakeholder theory supports stakeholders or individuals who influence or are influenced by corporate strategies or practices rather than by the principle of social responsibility. Emshoff and Freeman (1978) proposed an idea that there should be similarities between the objectives of the stakeholder group and the organization. If the organization is supporting all stakeholders then it will portray a decent reputation in the consumers and society that drive to improve its performance and organizational loyalty (Figure 1).

### 3. Conceptual framework

#### 3.1. Methodology

This study examined the intervening effect of customer satisfaction, corporate reputation, and trust among CSR and customer loyalty of Pakistani telecom companies. About 600 pre-designed and verified structured questionnaires were distributed among front line and middle managers a number of Pakistani telecom companies and the response rate was 76%. Simple random sampling was used in the selection of respondents and the reason behind the selection of the telecommunications sector is that it is an emerging technology in the Pakistani context that should be improved by exploring the determinants of loyalty. This study is quantitative in nature and based upon the positivism paradigm. The cause-and-effect relationships were identified among determinants of CSR and customer loyalty. SPSS and AMOS software were utilized for research analysis.

The research instruments used in this study have been adapted from value relevance (Lee et al., 2012), ethical standard (Stanaland et al., 2011), commitment to CSR (Kang & Hustvedt, 2014; Qu, 2014), customer satisfaction (Chen, Lai, & Ho, 2015; Loureiro, Sardinha, & Reijnders, 2012), corporate reputation (Weiss, Anderson, & MacInnis, 1999), customer trust (Bowden-Everson, Dagger, & Elliott, 2013; Stanaland et al., 2011), and loyalty (Blut, Beatty, Evanschitzky, & Brock, 2014; Homburg, Stierl, & Bornemann, 2013). This analysis includes cross-sectional data and it was collected from multiple respondents belonging to managerial posts of Pakistani telecom sectors. Structural equation modeling was used for checking normality, correlation, regression, and confirmatory factor analysis of intervening effect of customer satisfaction and trust among CSR and customer loyalty. Urbach and Ahlemann (2010) explained that the SEM is a second-generation statistical technique, which simultaneously tests the causal relationship between multiple dependent variables and independent variables as opposed to the first generation techniques like factor analysis, discriminate analysis, and multiple regressions, which cannot. They also claimed that the SEM is considered better than the traditional regression because it can reduce bias by taking measurement errors into account.

#### 4. Empirical findings

##### 4.1. Measurement models

Measurement models were used to confirm the effectiveness and suitability of the model using numerous standards. This stage validated that all latent variables would be proceeded with the help of three observed variables. Chi square values were preferred, with minimum values (Schumacker & Lomax, 2004). RMR within the defined range were less than 0.08 (Steiger, 2000) and RMSEA values are also less than 0.10 (Browne & Cudeck, 1989). The CFI values (Tabchnick & Fidell, 2006), GFI, and NFI (Shevlin & Miles, 1998) were not less than 0.90, clearly indicating that all measurement models were good and suitable for the structural model (Table 1).

##### 4.2. Descriptive statistics and normality

Descriptive statistics indicated mean, median, minimum, and maximum values. In addition, it is used for indication of normality of the data using Skewness and Kurtosis. There were a total of 395 respondents who participated in the research analysis after eliminating inappropriate and inadequate questionnaires. The mean and standard deviation indicated that the trend of the data were within the average of the results. The minimum and maximum values explained the two extremes of the data. Skewness indicated the asymmetry of data and the values showed negative trend. Kurtosis explained the flatness of data dissemination. A few other measures were also used to check the normality of the data. The histogram, scatter, and p-p plots (Thode, 2002), Durban Watson, VIF, and tolerance tests (Coenders & Saez, 2000) indicated that there was no problem of autocorrelation, heteroscedasticity, and multicollinearity in the sample data (Table 2).

**Table 1. Comparative fitness levels of measurement model**

Index	Cut off level	CSR	VR	ES	CS	CR	CT	CL
		Fitness level	Fitness level	Fitness level	Fitness level	Fitness level	Fitness level	Fitness level
$\chi^2$	Low preferred	5.000	2.880	18.00	1.999	2.680	3.214	2.215
RMR	≤ .08	0.030	0.014	0.043	0.011	0.010	0.020	0.019
CFI	≥ .90	0.999	0.998	0.935	0.999	0.990	0.999	0.997
GFI	≥ .90	0.941	0.993	0.980	0.990	0.990	0.997	0.991
NFI	≥ .90	0.841	0.981	0.932	0.988	0.990	0.989	0.987
RMSEA	≤ .10	0.100	0.060	0.140	0.045	0.060	0.070	0.069



**Table 2. Descriptive statistics**

	<b>N</b>	<b>Mini</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>	<b>Skew</b>	<b>Kurt</b>
CSR	395	1.667	5.000	3.994	0.661	-0.737	0.582
VR	395	1.000	5.000	3.697	0.905	-0.554	0.005
ES	395	1.333	5.000	3.714	0.703	-0.380	0.219
CS	395	1.333	5.000	3.787	0.719	-0.552	0.728
CR	395	3.738	5.000	3.800	0.618	-0.255	0.457
CT	395	2.000	5.000	3.917	0.698	-0.478	-0.461
CL	395	2.000	5.000	3.882	0.573	-0.311	0.106

**Table 3. Correlation matrix**

	<b>CSR</b>	<b>VR</b>	<b>ES</b>	<b>CS</b>	<b>CR</b>	<b>CT</b>	<b>CL</b>
CSR	1.00						
VR	.167**	1.00					
ES	.178**	.197**	1.00				
CS	.426**	.266**	.406**	1.00			
CR	.194**	0.042	.313**	.224**	1.00		
CT	.351**	.294**	.234**	.305**	.272**	1.00	
CL	.348**	.258**	.385**	.399**	.693**	.474**	1.00

\*\* $p < 0.01$ .

#### 4.3. Correlation matrix

The correlation matrix indicated the relationship between the dependents, the mediators, and independent variables. In Table 3, all factors showed significant and positive correlation with each other. Value relevance indicated that there was a significant positive relationship with ethical standards, commitment to CSR, customer satisfaction, corporate reputation and trust as a mediator, and customer loyalty as dependent factor. There was a higher correlation between customer trust and customer loyalty with 0.474, while value relevance has less correlation with commitment to corporate social responsibility. Correlation values are another indication that there was no issue of autocorrelation and multicollinearity in the sample data.

#### 4.4. Hypothesis testing

The structural equations model was applied to examine hypothesis and the first-order confirmatory factor analysis indicated that only three items were in the best fit category and should be processed for further analysis. The determinants of commitment to corporate social responsibility indicated that both value relevance and ethical standards had a significant and positive relationship. The standardized regression coefficients were 0.137 and 0.151, respectively, at a significance level of 1%. Value relevance and ethical standard contributed that it will lead to positive improvements in CSR commitment (Golob et al., 2008; Wang & Juslin, 2012). The direct relationship between CSR commitment and customer loyalty was significant, which expressed that organizations were committed to CSR activities, will certainly lead to customer loyalty (Stanaland et al., 2011). The standardized regression coefficient was 0.218 at a significance level of 1% (Table 4).

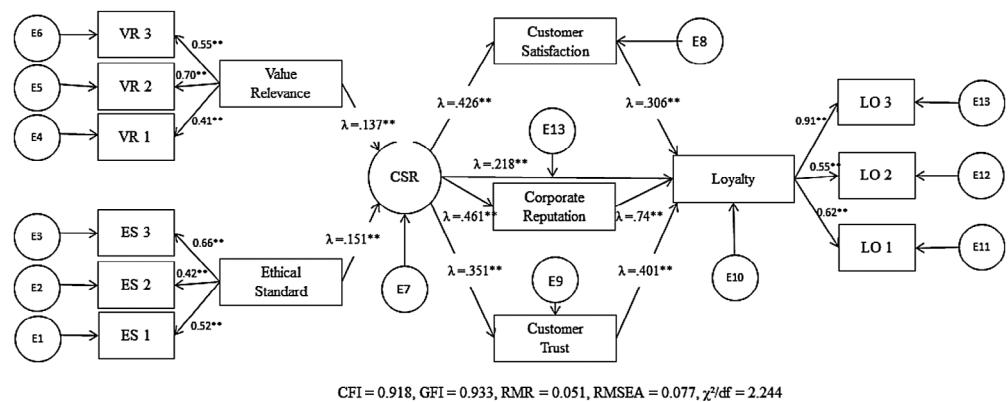
Commitment to CSR was positively influencing customer loyalty because with meeting the criteria of value relevance and the ethical standard, the customer considers an organizational good which leads to their loyalty. CSR established the perception of consumer satisfaction and trust, since the organization behaved favorably, ethically, legally, and responsibly (Pavlou & Fyngenson, 2006), it induced a positive perception of the organization (Pavlou & Chai, 2002; Pavlou & Fyngenson, 2006), which was the indication that the positive and reliable consumers believed in repeat purchases. The

**Table 4. Standardized regression weight**

	Std. Estimates	S.E	C.R	p-value
CR→CSR	0.137	0.037	2.736	0.006*
ES→CSR	0.151	0.047	3.014	0.003*
CSR→CL	0.218	0.043	4.360	0.000*
CS→CL	0.306	0.040	6.118	0.000*
CT→CL	0.401	0.038	8.649	0.000*
CSR→CS	0.426	0.050	9.322	0.000*
CSR→CT	0.351	0.050	7.423	0.000*
CSR→CR	0.461	0.115	2.515	0.013*
CR→CL	0.740	0.563	2.247	0.025**

\* $p < 0.01$ .  
 \*\* $p < 0.05$ .

**Figure 2. AMOS output.**



standardized regression coefficients were 0.040 and 0.038, respectively, at a significance level of 1%. CSR was also significantly influenced the corporate reputation which had positive effect on customer loyalty. The standardized regression coefficients were 0.461 and 0.740, respectively, at a significance level of 1 and 5%. Confidence also had positive effects on consumer loyalty (Singh & Sirdeshmukh, 2000). Corporate social responsibility established a better image of the organization and leads to customer loyalty (Figure 2).

This analysis has demonstrated that direct relationship of CSR and customer loyalty exists and customer satisfaction, corporate reputation, and trust also intervene between the aforementioned relations. Iacobucci, Saldanha, and Deng (2007) showed that the structural equation modeling might be more predominant in the identification of a mediator relationship than the regression analysis. Baron and Kenny (1986) procedure used to test hypotheses. It should be noted that (Baron & Kenny, 1986) the assumptions are fulfilled. In addition, the Sobel test (Sobel, 1982) is applied, which clearly demonstrated that there is a partial mediation between CSR commitment and client loyalty in both cases of mediation. The values of CFI, GFI, and RMR are within the desired ranges that clearly demonstrate the goodness and fitness of the model.

### 5. Discussion and conclusion

This study investigated the relationship between value relevance and ethical standards as determinants of commitment to CSR activities and customer loyalty with the intervening effect of customer satisfaction, corporate reputation, and trust in telecom organizations. From a theoretical point of view, this study contributed to customers' own value relevance and ethical standards of organizations, lead to establish strong customer loyalty. It is noted that strict corporate ethical standards lead to believe in the organizational commitment to CSR activities and customer satisfaction that are indicative of customer loyalty.



Therefore, our results provide a general picture of the theoretical process by which the sequential relationship between ethical standards, commitment, trust, satisfaction, reputation, and loyalty is configured. Exploration of customer satisfaction, reputation, and trust as intervening factors is another theoretical contribution. From the practical point of view, the identification of customer satisfaction and the loyalty relationship is general, while trust is important because it is considered as justification based on morality. Therefore, researchers must incorporate these factors as variables necessary for the successful implementation of CSR activities. Therefore, it is important for organizations to adequately disseminate practical and moral information (Stanaland et al., 2011).

From a practical point of view, this study is important because it has disseminated that the importance of value relevance and ethical standards are necessary for the perception of CSR activities that improve customer loyalty. Companies should try to draw consumers' attention to their CSR plans and communicate actively with consumers to make it clear that they are committed to achieving their CSR goals. It would be much better if the ethical standard related to CSR was disseminated using statements (Ki & Kim, 2010) and in this way, customers will have easy access to organizational CSR-related plans to reduce the potential for confusion.

This study provided numerous practical and theoretical implications, but it is still difficult to generalize in developed, developing, and emerging economies. There are different organizational structures and standards that enhance their CSR plans and goals, so it is necessary to apply this perspective in other sectors and economies to generalize globally. There are other limitations that exist regarding the time frame, and the moderating aspects of customer satisfaction, trust, and corporate reputation. In addition, the longitudinal aspect could be incorporated to enhance generalization and make addition to theoretical aspects. Future studies could incorporate other moderating and interventional factors in between relation of CSR and customer loyalty.

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