

**The impact Corporate Social Responsibility on Customer Loyalty: mediating role of
Customer satisfaction**

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Abstract

This research examines how corporate social responsibility (CSR) affects customer satisfaction and its outcomes customer loyalty. This study develops and tests conceptual framework, which predicts that customer satisfaction partially mediates the relationship between CSR and customer loyalty. This research also takes important steps of understanding the mediation analysis. Convenience sampling was used. All hypothesized variables were supported by empirical study, correlation and regression analysis were used in this regard. Low CSR, actually reduces customer satisfaction levels and, through the lowered satisfaction, harms customer loyalty and customer trust.

Key Words: Corporate Social Responsibility, Customer Satisfaction, Customer Loyalty.

Introduction

Customer satisfaction is an ultimate goal of an organization because after the company achieves customer loyalty, trust, corporate image, brand image and high market value (Fornell, 1988; Kotler, 1991). To achieve organizational reputation firms adopt different strategies to create competitive advantage, because these strategies show company's vision. Corporate social responsibility is one of the strategy through which company tries to build a better image in society where it works.

When a consumer goes to shopping, he or she implicitly or explicitly, has to make decisions

for each product category. Whether to buy in particular categories, and if so, where (which store), which brand, and what quantity. All decisions may be influenced by consumers because they think about everything they purchase. It is interesting to know, how corporate social responsibility affects consumers' decisions during their purchases. A company formed loyal customers through different strategies like sales promotion, a CSR initiative, first mover advantage, better customer services. Barney (2005) gave a model of supply and demand investing in socially responsible initiatives that will maximize the market value of the firm. A CSR initiative creates benefits for companies in term of increasing consumer identification with the company, customer corporate identification of his or her perception about the company (Dutton et al., 1994).

Companies create separate budgets for corporate Pakistani companies are also doing CSR through different fashions like National bank Pakistan through Karobar scheme, Tetra Pak involved in sustainable forestry and energy usage, Hamdard Foundation is active in building and supporting educational institutions and Attock oil refinery has indulged in raising hospitals wastage and Incinerate at their cost (Aurora, 2010). In 2003, a multi stakeholder forum "Pakistan Compliance initiative" was launched with support from international buyers, telecom sector and the Ministry of commerce. The concept of real CSR in Pakistan is still in its infancy; CSR in Pakistan seems to focus on poor education and rehabilitation.

In recent years, most of the national and multi-national companies has been introduced the amount which company invested in the project that in favor of the general public. The research majorly checks that customers while purchasing goods gives priority to those companies who invested in community projects. The concept of CSR basically related to management studies, so that delimit to the department of management sciences.

Literature Review

Corporate social responsibility

The European Commission defines corporate social responsibility "a concept whereby companies integrate social and environmental concerns in their business operation and in their interaction with their stakeholder on a voluntary basis". Corporate social responsibility is about "doing the right things right". The World Business Council

for Sustainable Development (WBCSD) describes CSR as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life” (WBCSD, 2000). Corporate social responsibility in form of charities and donating to societies has been practiced in late 1800s in the USA (Sethi, 1977). CSR being a social obligation was first advocated by (Carroll, 1979; Maignan & Ferrell, 2004).

Philanthropic responsibility—“giving back” time and money in the forms of voluntary service, voluntary association, and voluntary giving—is where most of the controversy over the legitimacy of corporate social responsibility lies. Philanthropy associated with giving alms to needy people. Philanthropy has much wider term in corporate social responsibility like giving financial donation, socially desirable organization (Edhi Foundation, Shukat Khanum hospital) and in the last supporting government efforts for social welfare”. According to the Pakistan Centre of philanthropy, public listed companies in Pakistan (There are 562) that collectively gave 1.87 billion rupees for social uplift in 2007 (Aurora September to October 2010). Corporate social responsibility initiatives may contribute an overall value of stakeholder values (Bhattacharya and Sen, 2004).

Customer satisfaction:

Customer satisfaction is a well-established concept in marketing (Fornell, 1987; Fornell, 1988; Kotler, 1991), Mona and Oliver (1993) said satisfaction is an evaluation of judgment that is measured after consumption. Customer satisfaction has judged through feeling of customer about certain goods or services. Customer satisfaction is the personal feeling about the goods or services after consumption, which he compares and gets pleasure (Brady and Robertson, 2001). Marketing literature shows that if the firm improves goods or services to fulfill the customer needs, then the firm would enhance their customer satisfaction, market value and profitability (Anderson and Sullivan, 1993; Fornell, 1992; Hauser et al., 1994, 1996, 1997; Rust et al., 1995; Zeithaml et al., 1990).

Loyalty is behavioral, because the continuous purchase of services from the same supplier, increasing the scale and our scope of a relationship (Yi, 1990). The term customer loyalty is used to describe the behavior of repeated purchases. Loyalty

is built through a positive strategy that is usually obtained by providing high quality customer service (Javalgi and Moberg, 1997). In banking sectors, customer loyalty is achieved through better service quality and honest commission and a fair interest rate must have the basic requirement to satisfy and retain customer (Zielke, 2008). Loyalty develops through different variables like experience (Hess et al., 2003), satisfaction (Heitmann et al., 2007), competitive attractiveness (Jones et al., 2000), through relationship with supply chain (Sirdeshmukh et al., 2002), and exit barriers (Burnham et al., 2003).

Trust defines as "a willingness to rely on an exchange partner in whom one has confidence". Customer trust in an organization is the confidence in the quality and reliability of the services offered (Garbarino and Johnson, 1999). Business can build customer relationship by initiating several types of bonds; these bonds, enhance customer trust by delivering economic benefits to the customer. Stronger relationships with the customers are the most important factor in service (Czepiel, 1990). Relationship marketing has found that trust is the basic ingredient for bonding buyer to the seller, the salience of relationships as a source of sustainable competitive advantage is well established within the topic of brand loyalty (Bharadwaj, 1993; Han, 1993).

Conceptual framework:

Corporate Social Responsibility and Customer Satisfaction:

The actual corporate philanthropy initiative had more positive attitudes to the company and higher brand purchase and investment intent (Korschun et al., 2006). CSR initiative, mainly on education, balanced growth, health, environmental marketing and affect customer satisfaction (Narwal, 2007). Customer satisfaction is a fundamental determinant of long-term consumer behavior (Oliver, 1980; Yi, 1990 & Cooil, 2007). Various theories such as resource based view if the firm (Barney, 1986), risk management theory (Godfrey, 2005), and institutional theory (Handelman and Stephen, 1999) and stakeholder theory (Clarkson, 1995) have used link between corporate social performance and customer satisfaction. Corporate social performance (CSP) earned by the organization, involving in cause related marketing, corporate philanthropy, green marketing, minority support programs) enhances firm performance. Corporate social performance (CSP) delivers different benefits such as customer satisfaction, customer–

firm identification, and favorable firm image (Brown and Dacin, 1997). Based on the significant relationship between corporate social responsibility and customer satisfaction it can be hypothesized that:

H1: There is a significant positive relationship between corporate social responsibility and customer satisfaction.

Customer satisfaction and customer loyalty “loyal customers do not necessarily satisfy customers... satisfied customers tend to be loyal customers” (Fornell, 1992). Several studies discussed have observed a strong link between customer satisfaction and loyalty (Anderson and Sullivan, 1993; Boulding et al., 1993; Fornell, 1992; La Barbera and Mazursky, 1983; Oliver and Swan, 1989). Surveys have consistently shown very strong correlations between customer satisfaction and loyalty. Customer loyalty is a combination of customer expectations, such as satisfaction, image and perceived value. There exists an interaction between the desired results and customer satisfaction, customer loyalty and customer retention. Customer satisfaction is one, or even the most important, antecedent of customer loyalty (Mittal et al., 1998; Oliver, 1980). Customer dissatisfaction decreases the customer loyalty (Caruana, 2002). Customer satisfaction is considered as a prerequisite for customer retention and loyalty (Heckle and Westlund, 2000). Customer loyalty, is believed to reflect future buying intentions, and is measured using three indicators: repurchase probability, word of mouth and price sensitivity. In accordance with previous literature hypothesize:

H2: There is a significant positive relationship between customer satisfaction and customer loyalty.

Corporate social responsibility and customer loyalty are positively linked with internal customer commitment and external customer loyalty. In a Spanish study in which 800 retail banking customers investigate that CSR affect loyalty, finding that ethical responsibility impact on loyalty. The study has some other results; increase in satisfaction and loyalty, this relation not only improve but sustained over time. Corporate communication manager of Telenor Pakistan says “no evidence of conscious buying decision is based on company’s corporate responsibilities activities”. Strong corporate image can provide a competitive advantage (Balmer, 2009). Within this context, some authors have recently started to highlight the importance of aligning

corporate image with social behavior in order to create positive associations in the customer's mind (Kay, 2006). The little support from the above literature, it can hypothesize:

H3: *There is a significant positive relationship between corporate social responsibility and customer loyalty.*

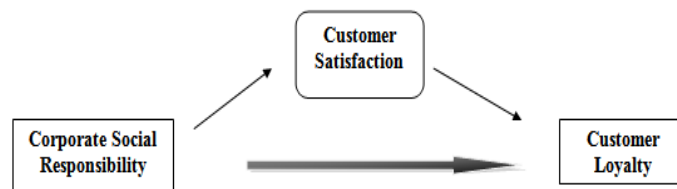
Mediator

A mediator variable which represents the new relation through which independent variable is able to influence the dependent variable. The involvement of third variable is a relation to the long tradition of social science. The mediator explains how external physical events take on internal psychological significance (Baron and David, 1986). This model adopts two causal paths feeding into outcomes. Customer satisfaction used as mediator between the relationship CSR and customer loyalty.

In this study, we discuss extensively that customer satisfaction has a positive relationship with corporate social responsibility, customer satisfaction has a positive link with customer loyalty. Based on the significant relationship between customer satisfaction, corporate social responsibility and customer loyalty, the researchers hypothesized that customer satisfaction mediates the relationship of the corporate social responsibility. So based on the literature, it can be hypothesized:

H4: *Customer satisfaction mediates the relationship between corporate social responsibility and customer loyalty.*

Theoretical framework:



Methodology:

The Population of our study was the management sciences department all universities of Pakistan. The topic purely relates to management students, because

they have little familiarity of variables that are included in our research. The sample size of the study was management students 325 respondents. A convenience sampling was used. A structured questionnaire, having close ended items was used to collect data from students. A self administered questionnaire was used. Out of 325 questionnaires 270 were returned. The response rate was 83.07%, the response rate was so high because of the self administered method. In this study out of 270, 199 questionnaires were filled by male and 71 filled with female. The ninety percent respondents were under thirty years. The study has concluded that university student's favorite company was Ufone, Telenor, Warid and Zong. The all constructs measure on the five point Likert scale. SPSS software was used, data analysis. Correlation and regression analysis used.

Reliability analysis

Reliability of the response in the study shows good results. The constructs that we include in our study shows significant Cornbach's alpha. CSR has (0.702), customer loyalty has (0.784) and customer satisfaction has (0.723) Cornbach's Alpha respectively.

Correlation and Descriptive Analysis:

Table 1 & 9 shows the mean and standard deviation of the variables. The total number of questions is (N=270), the value of CSR variable was (S.D = 0.59924, Mean= 3.6407), loyalty has a value of (S.D = 0.64348, Mean= 3.6407), customer satisfaction has a value of (S.D = 0.55043, Mean= 3.8321). The correlation analysis finds the linear relation among the variables. The correlation analysis has a significant value that supports hypothesis H1, H2 and H3.

Regression analysis:

In our research, regression analysis was run. The regression analysis the researcher finds out the causal effects of independent variables on the dependent variable. The all hypothesis were accepted on the basis of the T value at a significant level. CSR has significant on customer satisfaction ($\beta = 0.408$) with the variance ($R^2 = 0.166$) the variance in customer satisfaction is due to CSR. All these results are significant and so supports hypothesis H1. Customer satisfaction has a positive impact on customer loyalty with the value of beta ($\beta = 0.652$) with the variance ($R^2 =$

0.425) the variance in customer loyalty is due to the customer satisfaction. CSR and has a positive impact on loyalty ($\beta = 0.404$) with the variance ($R^2 = 0.163$) which shows 16.3% the variance in the customer loyalty is due to corporate social responsibility. These results support hypothesis H1. The fourth hypothesis of mediation decreased the value, but remained significant; it means that customer satisfaction partially mediates the relationship.

Conclusion:

The findings of this research are critical for the practitioners in cell connection service provider of Pakistan. A major contribution of this study is to discuss the corporate social responsibility, customer satisfaction and its outcomes. The Customer satisfaction partially mediates the relationship between the IV and DV, because In January 2007, Millward Brown interviewed over 20,000 consumers in the UK and USA to gauge the impact of CSR activities on consumers. The customers gave no importance to CSR their only focus towards the product quality & service quality of the goods and services. Unsurprisingly out of one third consumer were most concerned with product quality and least were concerned with public responsibility. CSR is an important tool to differentiate the company and to achieve competitive advantages.

The corporate management of a firm not focused on past to corporate social responsibility dimensions lead customer satisfaction and its outcomes. For this purpose management of connection services provider shall stimulate further research in the area of customer satisfaction, loyalty and trust. Although creating customer satisfaction is not a prime motivation for instituting CSR programs, research linking CSR strategies with positive customer outcomes, such as loyalty, has led to the expectation that these strategies generally have positive flow-on effects for customers. Yet researchers have failed to consider whether these strategies do indeed impact customer satisfaction levels. Given both the increasing investment in CSR strategies, and the fact that customer satisfaction mediates firm customer loyalty, further research is warranted. In view of research suggesting that telecom, banking customers prefer initiatives that create direct customer benefits compared to those that have broader social impacts, this paper has contended that funding directed towards customer-centric initiatives may create better customer satisfaction outcomes than CSR initiatives. To date, research has

not focused on either comparative studies to identify the most consumer preferred CSR initiatives, or on investigating alternate programs that may be more efficient in improving customer satisfaction. This research agenda would advance the discipline's knowledge base by moving our understanding beyond the impacts of society related CSR initiative to a consideration of alternate programs that may be more strategic efficient in achieving positive customer outcomes.

In conclusion, sustainability should be viewed as both a responsibility and an opportunity, the responsibility to operate ethically and ensure that products and operations are safe for human and the environment. If these are then integrated into the rhythm of the business, they will also represent the opportunity to meet new consumer needs.

The implication for top level management of the telecommunication service provider whose main purpose is to form satisfied loyal customers for the firm. If the firm adopts making good policy, then customers give value to the firm in the decision making process. In this study, this extensive and complex phenomenon has been studied from a rather narrow empirical perspective. Another limitation is that the data was collected only from the faculty of the management sciences students; therefore these findings are applicable only in those areas where customer looks on the other activities of the firm.

Future Research:

The research about corporate social responsibility is not enough to explore the new variables and dimensions of CSR. Corporate social responsibility is new in Pakistan, so local companies will create strategies that can help to achieve company vision. The corporate and brand image have close relation to firm performance and customer satisfaction antecedents and outcomes. Pakistan is second among those countries that spend a high amount on charity, but Pakistani companies cannot produce.

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Measurement item	Factor analysis	
	Factor loading	
Employment opportunities	0.802	
Affordable level	0.550	
Natural disaster	0.656	
Continue connection	0.701	
Join company	0.673	
Like services	0.718	
Best company	0.687	
First company	0.671	
Long term relation	0.714	
Experience based	0.763	
Highly satisfied	0.771	
Meets expectation	0.557	
Visually appealing	0.605	
Employees	0.650	
Company promises	0.559	
Always willing help	0.650	
Innovative ideas	0.697	
Innovative quality products	0.681	
Trusted company	0.821	
Honest and truthful	0.731	
Develop relation	0.682	
Always believable	0.716	

Correlation & Descriptive Table

	Mean	Standard deviation	1	2	3
CSR	3.6407	0.59924	1	0.365**	0.371**
Satisfaction	3.8321	0.55043	0.365**	1	0.586**
Loyalty	3.8370	0.64348	0.371**	0.586**	1

CSR & Customer Loyalty

Model	R	R Square	Adjusted R square	F	T	Significance
1	0.404	0.163	0.160	52.135	10.203	0.000

a. Predictors: (Constant), CSR.

CSR & Customer Satisfaction

Model	R	R Square	Adjusted R square	F	T	Significance
1	0.408	0.166	0.163	53.370	13.062	0.000.

a. Predictors: (Constant), CSR.

Customer satisfaction & Customer Loyalty

Model	R	R Square	Adjusted R square	F	T	Significance
1	0.652 ^a	0.425	0.423	198.074	14.074	0.000

a. Predictors: (Constant), satisfaction.