The impact of corporate social responsibility, service quality and customer-company identification on customers

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Abstract

Despite the importance of corporate social responsibility (hereafter CSR) as an important construct in academia and a pressing item on corporate agenda, some contradictory results suggesting that CSR is far away from being the most dominant criteria in purchase behavior call for further research on the topic. Research supporting this view suggests that traditional criteria such as price, quality and brand familiarity are still the most important choice criteria. Acknowledging the significant role that quality can play in the context of services, this study incorporates these two separate views and considers the effect that both CSR and service quality have on customer-related outcomes such as customer-company identification, customer satisfaction and customer loyalty. The study also investigates the mediating role of customer-company identification, pointing to the fact that improving customers’ psychological attachment to a company can serve as a strategic tool for enhancing the effect that CSR and service quality have on customer satisfaction and customer loyalty. To test the hypothesized relationships, an online questionnaire is conducted to a sample of 242 bank customers.

Keywords: Corporate social responsibility, Service quality, Customer-company identification, Customer satisfaction, Customer loyalty
Research supporting this view suggests that traditional criteria such as price, quality and brand familiarity are still the most important choice criteria. Acknowledging the significant role that quality can play in the context of services (Cronin and Taylor, 1992; Parasuraman et al., 1991), this study incorporates these two separate views and considers the effect that both CSR and service quality have on customer-related outcomes such as customer-company identification, customer satisfaction and loyalty. The study also investigates the mediating role of customer-company identification, pointing to the fact that improving customers’ psychological attachment to a company can serve as a strategic tool for enhancing the effect that CSR and service quality have on customer satisfaction and customer loyalty.

2. Literature Review and Hypotheses

2.1. Corporate Social Responsibility (CSR)

CSR has been a longstanding practice in the corporate arena and thus, it has represented an attractive and fruitful topic for both academics and practitioners. Yet, despite its importance and hundreds of studies conducted, the CSR construct still lacks a generally accepted definition (Green and Peloza, 2011). There exist a variety of theoretical perspectives and definitions to explain the CSR phenomenon (McWilliams et al., 2006; Vlachos, 2012). Among those, the most cited definition is the one proposed by Carroll (1979; 1991). Carroll (1979, p. 500) present CSR as a mic, legal, ethical, and discretionary expectations that society has of from a firm are to be performed not only for the sake of the firm but also for the sake of society at large.

A review of literature also suggests that the dimensions of CSR vary as well. The most classical classification of the dimensions is the one offered by Carroll (1979) that emphasizes the four principle types of responsibilities as dimensions which are economic, legal, ethical and philanthropic. Carroll argues that these four dimensions are intimately related and thus, organizations should strive to achieve all four at all times. In other words, a socially responsible firm “should strive to make a profit, obey the law, be ethical, and be a good corporate citizen” (Carroll, 1991, p. 43).

Even if there exist other dimensions proposed by other researchers, these dimensions somewhat correspond with the dimensions proposed by Carroll. For example, Lantos (2001; 2002) claim that there exist three dimensions of CSR which are namely ethical, altruistic and strategic. Two of these dimensions- ethical and altruistic- are very much linked to the ethical and philanthropic dimensions that are previously proposed by Carroll. The exception is the strategic CSR dimension which is relatively new to the relevant literature. Strategic CSR implies that CSR activities have the potential to improve corporate image and increase motivation and loyalty primarily among various stakeholder groups including shareholders, employees and customers (Lantos, 2002; Vaaland et al., 2008). Thus, more and more companies today consider the adoption of CSR initiatives as an important strategic objective (Wagner et al., 2009).

Probably the issue that is most extensively investigated within the context of strategic CSR is the relationship between CSR activities and a firm’s financial performance. This relationship has been much researched, with over a dozen reviews of numerous empirical studies published (e.g., Pava and Krausz, 1996; Margolis and Walsh, 2001, 2003; Orlitzky et al., 2003), yet the empirical evidence to date is rather mixed. While the effect of CSR on financial performance is found to be positive in some studies (e.g., Fombrun and Shanley, 1990; Solomon and Hansen, 1985; Stanwick and Stanwick, 1998), in others it is found to be negative (e.g., Aupperle et al., 1985; Mc Guire et al., 1988).

More recently, viewing CSR as an important business strategy and a source of competitive advantage, firms have begun to focus on the effects of CSR on other stakeholder groups, employees and customers in particular. In this context, some researchers have examined whether CSR activities enhance organizational effectiveness through improved job satisfaction (e.g., Hansen et al., 2011) or organizational trust (e.g., Valentine and Fleischman, 2008) while others have studied the effect of CSR on customer-related outcomes such as customer satisfaction (e.g., Carvalho et al., 2010; He and Li, 2011; Luo and Bhattacharya, 2006) and loyalty (e.g., Lee et al., 2012; Marin et al., 2009; Salomones et al., 2005, Stanaland et al., 2011).
In the related literature, the relationship between CSR and customer satisfaction is explained based on different research streams. Pointing to the tenets of stakeholder theory, some researchers (e.g., Maignan et al., 2005; Daub and Ergenzinger, 2005) argue that a company’s customers are potential stakeholders who care about not only the economic value of consumption but also the overall standing, including the social performance, of the company. In addition, given that perceived value and customer knowledge are acknowledged as possible antecedents of customer satisfaction (Fornell et al., 1996; Jayachandran et al., 2005), it is not surprising that CSR activities, through both adding value to the company and improving customer knowledge, promote customer satisfaction. Based on these views, Luo and Bhattacharya (2006) argue that customers are likely to be more satisfied by products and services offered by socially responsible firms and test their model on Fortune 500 companies. Their findings reveal not only that there exists a direct link between CSR and customer satisfaction but also that customer satisfaction fully mediates the relationship between CSR and firm market value. In a similar context, He and Li (2011) examine this relationship in mobile telecommunications sector and find that CSR has a direct effect on customer satisfaction. Thus,

H1: Customers’ perception of CSR has a positive effect on customer satisfaction.

CSR also has a direct influence on customer loyalty (Sureshchandar et al., 2002; Maignan and Ferrell, 2001). Prior research suggests that the perception of socially responsible behavior strengthens commitment toward the company, since the behavior transmits character (Brown and Dacin, 1997), a system of differentiating values (Turban and Greening, 1997), respect for customers, and a concern for serving them correctly, as well as complying with the quality standards. In addition, many consumers claim to be more willing to buy products from companies involved in social causes (Ross et al., 1992). Such CSR efforts are highly valued and supported by customers and this support is materialized in stronger loyalty toward the firm (Maignan et al., 1999). Other researchers (e.g., Du et al., 2007; Lee et al., 2012; Mohr et al., 2001) in this field of research also provide supportive evidence for this relationship. Thus,

H2: Customers’ perception of CSR has a positive effect on customer loyalty.

2.2. Service Quality

Over the past two decades, the theory and practice of service quality has received considerable attention from academics and practitioners alike. As a means of gaining competitive advantage within service providers, service quality represents the difference between customers’ expectations of a service and their perception of the way the service has been performed (Parasuraman et al., 1988). The assessment of service quality is largely based upon the SERVQUAL scale proposed by Parasuraman et al. (1985; 1988). Based on the disconfirmation of expectations model (Oliver, 1980), this scale contains 22 items under five dimensions including tangibility, reliability, responsiveness, assurance, and empathy and is widely used across industries with appropriate modifications (Cronin and Taylor, 1992; Dabholkar et al., 1996).

One of the key research interests on service quality has been the relationship between service quality and customer satisfaction. Even if some researchers claim that satisfaction represents an antecedent of perceived service quality (e.g., Bittner, 1990; Bolton and Drew, 1991; Carman, 1990), other researchers (e.g., Bittner and Hubbert, 1994; Cronin and Taylor, 1992; Cronin et al., 2000; Hu et al., 2009; Rust and Oliver, 1994) strongly contradict this claim and argue that service quality itself is an antecedent of satisfaction. Given the overwhelming support indicating that customers’ perception of service quality has a positive effect on the level of customer satisfaction, this study hypothesizes:

H3: Customers’ perception of service quality has a positive effect on customer satisfaction.

Empirical research has also focused explicitly on the relationship between perceived service quality and service loyalty. Using the multidimensional framework of customer behavioral intention in services proposed by Zeithaml et al. (1996), several researchers (e.g., Alexandris et al., 2002; Bloemer et al., 1999; Boulding et al., 1993; Cronin and Taylor, 1992; Cronin et al., 2000) have examined the effect that perceived service quality has on these individual service loyalty dimensions which are word-of-mouth communication, purchase intention, price sensitivity and complaining behavior. For example, Parasuraman and his colleagues (1991) argue that there is a positive relationship between customer’s perceptions of service quality and their willingness to recommend the company to others. In another study, Boulding, Karla, Staelin, and Zeithaml (1993) reveal that there exist positive relationships between
service quality and repurchase intentions and willingness to recommend. Investigating the determinants of price elasticity, Bolton and Myers (2003) conclude that service quality influences price elasticity. In a similar context, Zeithaml et al. (1996) offer a conceptual model of the impact of service quality on particular behaviors and find that service quality is positively associated with willingness to pay more. Thus,

H4: Customers’ perception of service quality has a positive effect on customer loyalty.

2.3. Customer-Company Identification

For years, researchers in the field of organizational behavior have studied the processes by which employees come to identify with their employer companies within the context of organizational identification. Drawing on social identity theory (Tajfel and Turner, 1985), organizational identification refers to the degree of overlap in a person's self-concept and his/her perception of the corporation (Dutton et al., 1994). As people view the corporation as consistent with their norms and values that reflect their self-concepts, this perceived overlap with the corporation enhances the self-esteem of people (Scott and Lane, 2000).

In essence, organizational identification is mainly concerned with employees but through time other researchers in the field of marketing (e.g., Bhattacharya and Sen, 2003; Sen and Bhattacharya, 2001) have extended the concept to cover customers as well and termed it as “customer-company identification” (hereafter CCI). As defined by Du et al. (2007), CCI is consumers’ psychological attachment to a company based on the substantial overlap between their perceptions of themselves and of the company.

Given that CCI may play a very influential role on consumer behavior, identifying its antecedents has been an area of major research interest and the studies conducted reveal that favorable CSR beliefs are likely to be a key driver of CCI (e.g., Bhattacharya and Sen, 2003; Du et al., 2007; He and Li, 2011; Lee et al., 2012; Lichtenstein et al., 2004; Luo and Bhattacharya, 2006; Marin et al., 2009; Sen and Bhattacharya, 2001; Sen et al., 2006; Becker-Olsen et al., 2006). The rationale behind this direct effect of CSR on CCI is that when customers perceive a company as behaving in a socially responsible manner, they are generally more likely to identify with this company to enhance their self-esteem and to express an improved social image (Aquino and Reed II, 2002). Thus,

H5: Customers’ perception of CSR activities has a positive effect on CCI.

Even if the effect of service quality on customer-related outcomes such as satisfaction and loyalty has been widely studied in prior studies, the potential effect of service quality on CCI has not really been empirically investigated. To our knowledge, one exception is the study by He and Li (2011). Conducting a survey to customers of mobile telecommunication services, the researchers argue that identifying with a service company that has a more favorable perception of service quality will enable consumers to fulfill their needs for self-esteem and improved social image, as in the case of CSR. Thus,

H6: Customers’ perception of service quality has a positive effect on CCI.

Based on the prediction of social identification theory that consumers with stronger CCI are more prone to engage in pro-brand activities (He and Li, 2011), it is not surprising to expect that CCI will have a positive effect on both customer satisfaction and customer loyalty. Many of the studies conducted within this context support the direct effect that CCI has on customer loyalty (e.g., Bhattacharya and Sen, 2003; Lee et al., 2012; Lichtenstein et al., 2004; Marin and Ruiz, 2007; Marin et al., 2009; Tuskej et al., 2013). For example, Lichtenstein et al. (2004) reveal that when a company is perceived as socially responsible, it is more attractive for CCI and consumers are more likely to support companies with which they identify and such identification based support is usually expressed through a sustained, long-termed preference for the company. This finding is further supported by Bhattacharya and Sen (2003) who argue that loyalty is a key consequence of CCI. Thus,

H7: Customers’ identification with the company (CCI) has a positive effect on customer loyalty.
On the other hand, there also exist few studies claiming that the effect of CCI on customer loyalty is rather indirect and through customer satisfaction. For example, investigating the effect of CCI among art museum members, Bhattacharya et al. (1995) reveal that members’ identification is positively related to confirmation of members’ expectations with the organization's services, which means that these individuals are more satisfied with the provided service as a result of their identification with the particular organization. In a more recent study, He and Li (2011) also examine the relationship between CCI and customer satisfaction within the sector of mobile telecommunications and find significant support. Thus,

H8: Customers’ identification with the company (CCI) has a positive effect on customer satisfaction.

2.4. Customer Satisfaction- Customer Loyalty

Many studies of satisfaction within the marketing literature point out a positive relationship between customer satisfaction and customer loyalty (e.g., Anderson and Sullivan, 1993; Bloemer and de Ruyter, 1998; Cronin et al., 2000; Oliver, 1999; Russell-Bennett et al., 1997; Suh and Yi, 2006). Thus, as suggested by He and Yi (2011), it is possible that the expected effect that CSR, service quality and CCI have on customer loyalty may rather be indirect via customer satisfaction. In order to test this indirect effect, it is essential to hypothesize that:

H9: Customer satisfaction has a positive effect on customer loyalty.

3. Methodology

3.1. Research Goal

Based on the literature review, the conceptual model of this study (see Figure 1) and the related hypotheses are developed. This study aims not only to understand the possible effect that both CSR and service quality have on customer-related outcomes such as CCI, customer satisfaction and loyalty but also to examine the mediating effect CCI has on these relationships. To test the hypothesized relationships, an online questionnaire is conducted.

![Figure 1: Conceptual Model](image)

3.2. Sample and Data Collection

A survey on customers of a well known Turkish bank is conducted to test the hypotheses. Two hundred and forty-two usable questionnaires were collected through e-mail snowball sampling. Questionnaires were initially emailed to ten acquaintances of the researchers and these acquaintances were asked to further distribute the questionnaires to their
acquaintances who were active users of the services provided by this particular bank. The final sample consists of 147 female (60.7 %) and 95 male (39.3 %); 44 under the age of 28 (18.2 %), 164 at the ages of 29–39 (67.8 %), 26 at the ages of 40–49 (10.7 %), and 8 over the age of 50 (3.3 %). Most of the respondents (78 %) have a bachelor’s degree as their latest degree, while 14 % of the respondents also have graduate degrees. Only 8 % of the respondents report monthly income less than 1000 TL, whereas 17 % report monthly income in excess of 4000 TL. Approximately 75 % of the reported monthly incomes fall between 1000 TL and 3999 TL. In terms of current working status, most of the respondents (84%) are employed in the private sector and they mostly hold managerial positions in their workplaces. Of the remaining respondents, 10 % are self-employed, 3 % are unemployed and 2 % are students.

3.3. Analysis and Results

In order to test the hypothesized relationships described above, scales measuring the constructs of the conceptual model shown in Figure 1 are drawn and adapted from existing literature. All the scales are translated to Turkish and then back-translated and the survey instrument is finalized. Before conducting the survey, a pilot test is done with sixty three undergraduate and graduate students with the aim to purify the scales. CSR is measured by the thirteen-item measure developed by Swaen and Chumpitaz (2008). In order to measure service quality, the five items used by Vlachos et al. (2009) are used. These items, which were originally developed for mobile services industry, have been slightly changed to fit to the banking industry used in the present study. All customer-related outcome constructs are also measured by multiple items drawn from existing literature. CCI is measured by the five items adapted from He and Li (2011). The three items measuring customer satisfaction are adapted from Chiu and Droge (2006). Finally, customer loyalty is measured by three items adapted from Aydın and Özer (2005). The items for each of these constructs are measured by five-point Likert scales (1=strongly disagree, 5=strongly agree).

The analyses include a two-step approach of structural equation modeling (SEM) to analyze the data and test hypotheses (Anderson and Gerbing, 1988), using AMOS 18.0. Confirmatory factor analysis (CFA) produces adequate fit: Normed χ²=2.647; CFI = .923; TLI = .911; and RMR = .058, all indicating a reasonable level of fit. Furthermore, as shown in Table 1, all factor loadings are significant (p=.001), indicating convergent validity; composite reliability estimates for all constructs are greater than the minimum criteria of .70 (Nunnally and Bernstein, 1994) and the average variance extracted (AVE) values for all constructs are greater than the threshold value of .50 (Fornell and Larcker, 1981).

Table 1: Results of the Confirmatory Factor Analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Factor Loadings (minimum and maximum)</th>
<th>Cronbach Alpha (α)</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>.93</td>
<td>.92</td>
<td>.54</td>
<td></td>
</tr>
<tr>
<td>13 items</td>
<td>.71-.82</td>
<td>.89</td>
<td>.66</td>
<td></td>
</tr>
<tr>
<td>Service quality</td>
<td>.75-.88</td>
<td>.90</td>
<td>.74</td>
<td></td>
</tr>
<tr>
<td>5 items</td>
<td>.74-.94</td>
<td>.94</td>
<td>.84</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>.89-.94</td>
<td>.79</td>
<td>.66</td>
<td></td>
</tr>
<tr>
<td>3 items</td>
<td>.81-.82</td>
<td>.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CR: composite reliability, AVE: average variance extracted

Once the measurement model is confirmed, the structural model is then estimated. The model achieves adequate fit. The results show that of the nine paths, six paths produce significant coefficient estimates while three paths produce non-significant estimates. A summary of the results are depicted in Table 2. First of all, related to the effect of CSR on customer related outcomes, there is positive relationship between CSR and customer satisfaction (γ = .448; p=.000), customer loyalty (γ = .197; p< .05) and CCI (γ
=.581; p=.000), supporting H1, H2 and H5. As to the effect of service quality on these outcomes, there is positive relationship between service quality and customer satisfaction (γ =.338; p=.000), supporting H3. Yet, no significant effect of service quality neither on loyalty nor CCI is observed. Thus, H4 and H6 are not supported. The results further demonstrate a positive and significant path from CCI to customer satisfaction (β=.172; p=.000), supporting H8 but fail to support H7, as the corresponding path from CCI to customer loyalty is not significant. Finally, the path from customer satisfaction to customer loyalty is positive and significant (β=.893; p=.000) and thus, H9 is supported.

<table>
<thead>
<tr>
<th>Structural Paths</th>
<th>Coefficient</th>
<th>Significance</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 CSR → Satisfaction</td>
<td>.448***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H2 CSR → Loyalty</td>
<td>.197*</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H3 Service Quality → Satisfaction</td>
<td>.338 ***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H4 Service Quality → Loyalty</td>
<td>n.s</td>
<td>Not supported</td>
<td></td>
</tr>
<tr>
<td>H5 CSR → CCI</td>
<td>.581 ***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H6 Service Quality → CCI</td>
<td>n.s</td>
<td>Not supported</td>
<td></td>
</tr>
<tr>
<td>H7 CCI → Loyalty</td>
<td>n.s</td>
<td>Not supported</td>
<td></td>
</tr>
<tr>
<td>H8 CCI → Satisfaction</td>
<td>.172***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H9 Satisfaction → Loyalty</td>
<td>.893***</td>
<td>Supported</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *** p<0.001. ** p<0.01. * p<0.05

4. Discussion

This study not only examines the effect that both CSR and service quality have on customer-related outcomes such as customer-company identification, customer satisfaction and customer loyalty but also investigates the mediating role of customer-company identification on these outcomes. The empirical results generally support the hypotheses based on the suggested theoretical framework.

Theoretically, this study makes a number of contributions to the literature. First, it tests and confirms that CCI plays a central role along the path from CSR perceptions to customer satisfaction as well as customer loyalty. Even if the findings reveal that CSR has a direct effect on customer loyalty, this affect is rather limited when compared to the effect that CSR has on CCI. Thus, this study expands the traditional view concerning CSR’s effect on customers and suggests that it is the effect that CSR has on CCI that mostly creates more satisfied and hence, more loyal customers. Second, this study reveals that despite its importance as a very influential variable in the field of services marketing, service quality has an effect on customer loyalty only through its effect on customer satisfaction. In other words, it is the satisfaction of the customers with high service quality perceptions that lead to loyalty. Of course, this does not mean that service quality is not that important. The results still support that quality is an important attribute in the context of services. However, the results reveal that with both its direct effect on customer loyalty and its indirect effect through CCI and customer satisfaction, CSR’s role as an attribute is not only important but also determinant.

These findings also have significant implications for managers. First, it is both important and encouraging for managers to know that consumers tend to reward those companies with CSR activities by being more loyal to them. Besides its direct effect on customer loyalty, CSR also enhances both CCI and customer satisfaction, which also indirectly leads to customer loyalty and this suggests that managers should invest more in social initiatives. Second, given that CSR has stronger effect than service quality on all of the customer-related outcomes proposed in the model, managers should strategically allocate their resources, giving more emphasis to CSR initiatives. However, it is also important to note that service quality is still an important attribute for building customer satisfaction and thus, managers should not compromise their investments in service quality.
Despite its theoretical and managerial implications, this study has some limitations that generate opportunities for future research. First, this study tests the proposed hypotheses with the customers of a well-known bank in Turkey based on an e-mail snowball sample. Future research should test this model with larger random samples or samples across other banks or in other contexts, for example, in different service sectors and in different cultures. Second, this study does not examine the interactive effect of CSR and service quality in predicting the customer-related outcomes investigated. It is also possible to include new constructs in the model. For example, future research might analyse the moderating role of consumer personality traits such as innovativeness to develop a more comprehensive framework. Finally, this study works with global constructs of CSR and service quality rather than with each dimension individually. For future studies, it is suggested that the relations between the variables with the dimensions be considered separately, in order to determine possible differences in customer-related outcomes.

References


