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Corporate Social Responsibility and Consumer Buying Behavior: A Research Proposal

Johnson & Wales University

Course: Business Information & Decision-Making

(MGMT 5500)

Submitted To:

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Abstract

This research paper aims to examine key antecedents in consumer responses to CSR to determine a link between CSR activity and consumers' reactions to it. In this research proposal, key words are listed and briefly described as to their impact and benefits. A set of pre-tested structured questionnaires will be administered to 320 subjects. The responses to the items of these questionnaires are measures of the constructs under consideration, namely customer perception, customer satisfaction, corporate reputation, customer choice, corporate brand/influence, customer attitude and customer purchasing behavior. Measures for the constructs used in the study will be available in the literature, and will be adapted to suit the specific context. To validate the constructs, a confirmatory factor analysis and regression analysis will be conducted. It is expected that the research will support the hypothesis that consumer buying behavior is affected by a company's CSR activities. Part of the discussion will address the results and implications on CSR activities as well on future research.

Introduction

Corporate Social Responsibility (CSR) is a concept concerned with how enterprises address the values and needs of their stakeholders, particularly customers. CSR covers most community relationships, environmental problems, business ethics, and issues of human rights i.e., employees' welfare programs such as education and training programs along with workforce's safety measures in the workplace. CSR has become an important topic in both academic literature and business world in the past two decades (Fatma & Rahman, 2015). Researchers have stated that CSR positively influences firms' financial performance (Weinzimmer & Esken, 2016), supports its share prices (Cochran & Wood, 1984), shores up its market values (Mackey et al., 2007) and provides competitive advantage (Diddi & Neihm, 2016). Currently consumers expect businesses to not only conduct themselves in accordance with ethics but also keep their products at the highest level and a lower cost. Robinson et al. (2012) found that the likelihood of product purchase increased when consumers were given the option to support a social issue through the purchase of that product. Crowther (2004) is of the view that companies can "derive enormous benefits if they are perceived to be socially responsible by their stakeholders".

In developed countries, there has been enormous growth in the publication of CSR focused research while developing nations have not explored the impact of CSR so comprehensively. The constructs developed for western countries cannot be generalized for non-western counterparts. Though Feldman and Vasquez-Parraga (2013) claim that research on CSR might be reaching the mature stage, consumer responses to CSR activities are not well researched. The nature of the relationship between CSR actions and consumer responses is still

debatable as either positive or negative. This research proposal addresses the resulting gap and focuses on providing a clear insight on the relationship between CSR and customer actions. Further, it aims to interpret CSR relationships with customers' responses from a South Asian perspective. It attempts to gain a better understanding of the behavioral implications in response to the social initiatives undertaken by firms.

Statement of the Problem

The relationship between CSR actions and consumer responses is still debatable as either positive or negative. This research proposal focuses on giving a clearer insight of the relationship. Within the developing nations, not much research has been conducted on this perspective. Developing nations represent the most rapidly expanding economies in the world, places where social and environmental crises are felt most acutely in the world. The understanding of the underlying relationship between CSR and customers' responses is necessary for economic growth of developing nations.

Purpose of the Study

To reduce cost, developing nations have not made CSR a priority, as they are more short term than long- term focused. Social and environmental crises have been critical issues primarily in such nations due to weak government policies, and due to their being targeted by numerous Multinational Companies (MNCs) attracted to their available resources. Moreover, most publications concentrate on other factors such as 'marketing and promotion' as means to attract customers rather than CSR. The research aims to explore the relationship between CSR and customers' actions. One of the prime motivation of any organization to engage in CSR activities

is to attract customers. This research aims to test whether the reputation of socially responsible firms pulls in new customers, and if it gives consumers the feeling of demonstrating responsibility when supporting an organization with a high CSR.

Research Questions/Hypotheses

For this study, the following questions will be addressed:

1. What is the impact in an emerging market of CSR activities on consumers' purchase intentions?
2. How does awareness of a company's CSR activities affect consumers' purchase intentions?
3. Does confidence in the value of CSR play a mediating role between customers' perceived CSR and purchase intentions?

As part of the study, investigation will include the following hypotheses:

1. Consumers' perception of CSR is positively associated with purchase intention.
2. Trust plays a mediating role in the relationship between perceived CSR and purchase intention.
3. A higher level of consumers' awareness of CSR leads to their more positive responses regarding purchase intention.

Definition of Terms

The research will include the following keywords:

1. *Corporate Social Responsibility(CSR)*—The World Bank defines CSR as “the commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society to improve their quality of life in ways that are good for both business and good for development.”

2. *Trust* – Trust is a key element for relationship success and tends to be related to a number of elements such as competitive advantage and satisfaction. (Ratnasingam & Pavlou, 2003)
3. *Purchase Intention*—Based on TPB (Theory of Planned Behavior), purchase intention is basically determined by three factors. One of which is the attitude that the consumer holds towards the behavior which is perceived as purchasing attitude (Ajzen, 1991; Chen, 2007).
4. *Awareness*—Awareness level measures whether consumers know about and are familiar with company, organization, product, or service. Consumer awareness is an exogenous construct that directly affects the purchase intention. Awareness comes mostly from a firm's deliberate marketing communication efforts (for example cause-related marketing programs).

Theoretical Framework

According to the United Nations, “The challenge for Corporate Social Responsibility (CSR) in developing countries is framed by a vision that was distilled in 2000 into the Millennium Development Goals- “a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, educated children, equal opportunities for women, and a healthier environment” (2006). Unfortunately, these aspirations have yet to be met in developing countries. Corporations are not aware of the influences of CSR activities upon customers’ attitudes and purchasing behavior. The research proposes a relationship between above discussed variables -CSR and customers’ actions. One of the prime motivations for organizations to engage in CSR activities is, to attract customers. The key research questions for our study will be (1) What is the impact in an emerging market of CSR activities on consumers’ purchase intentions? (2) How does awareness of a company’s CSR activities affect consumers’ purchase intentions?

(3) Does confidence in the value of CSR play a mediating role between customers' perceived CSR and purchase intentions?

The following hypotheses form a base for the proposed questions:

- Consumers' perception about CSR is positively associated with purchase intention.
- Trust plays a mediating role in the relationship between perceived CSR and purchase intention.
- A higher level of consumers' awareness of CSR leads to consumers having more positive purchase intention.

The hypotheses will be experimented via use of a pretested structured questionnaire given to 320 respondents and results will be validated using confirmatory factor analysis and regression analysis.

Literature Review

Several researches have been done and millions of words are poured to analyze the influences of CSR in consumer behavior in different places around the globe. However, similar research in developing nations like Nepal is not enough. Here is a brief presentation of those related literature:

According to McDonald and Rundle-Thiele (2008) considering the banking industry, "Millions of dollars are set aside for corporate social responsibility (CSR) programs by retail banks to strengthen both their reputations and their relationships with stakeholders and the customers". A great deal of research has been undertaken in recent years in retail banks commitment to CSR principles and its implications (Snider et al 2003). In the wake of increased competition among retail banks, researchers have now focused a lot of their attention towards finding out whether retail banks are undertaking sustainable business practices (Sweeny et al.,

2001). The increased popularity of microfinance among different financial institutions is due to the underlying belief that involvement in microfinance programs would help them to retain credibility as development agencies (Remenyi and Quinones, 2000). The business rewards of CSR tend to be greater when the social initiative is related to a company's core competency (CSR fit) and deals with issues that consumers care about (Kotler and Lee, 2005, Menon and Kahn, 2003, Sen and Bhattacharya, 2001).

Another research was conducted in Saudi Arabia to get the link of CSR and its influences upon consumer and organization. Traditionally, CSR has been associated with large corporation and there is an assumption that CSR approaches are based and predominantly developed in and for large corporations (Jenkins, 2004). Investment in the initiatives of (CSR) is considered as a source of competitive advantage and as a tool to enhance financial performance (Smith, 2003; Porter & Kramer, 2006). Nevertheless, it is not clear whether initiatives of (CSR) can be used as a tool to achieve competitive advantage. Viewpoints have been varied since the sixties of the last century about whether the financial results provide an evidence of a correlation between (CSR) and competitive advantage (Cochran & Wood, 1984). There is a major difference between the initiatives of organization and the features of other traditional marketing mix (e.g. promotion). This difference lies in corporate, consumers, and social issues, representing all benefits that can be achieved from the initiatives of CSR (Bhattacharya & Sen, 2004). The research was based on survey of industrial corporates of Saudi Arabia and the sample included 300 corporates from a wide range of industries, including petroleum, chemical, machinery and equipment, automotive, electronics, computer, steel and metals, food, agriculture. E-mail survey was used to collect data in the study. Fifteen pilot tests were conducted with marketing managers and executives who were the representatives of the research sample. The questionnaire contained five sections. The

first section was allocated to get the perceptions of respondents to the initiatives of (CSR) under study, the second section was allocated to identify the perceptions of respondents about satisfaction, the third section was allocated to measure respondents' perceptions about corporate reputation and the fourth section was allocated to measure perceptions related to the measurement of competitive advantage. The responses to the items of these four sections have been according to Fifth Likert Scale. Structural modeling equations were used to evaluate the parameters of the hypothesis, which identified (CSR) as exogenous constructs. As (CSR) was correlated to mediating constructs, corporate reputation, and customer satisfaction, and was correlated to the construct competitive advantage, mediating constructs were also correlated to the competitive advantage. Customer satisfaction was also correlated to corporate reputation. The results concluded by the study include the following: The stakeholders' perceptions relating the initiatives of (CSR) of Saudi corporates, under study, have a positive effect on customer satisfaction, corporate reputation, and competitive advantage. The results have, on the one hand, illustrated that customer satisfaction plays mediating role in the relationship between (CSR) and competitive advantage. Corporate reputation also plays the same mediating role for the same relationship. The results also include that there is a positive relationship between customer satisfaction and corporate reputation.

These researches somehow correlate with the current research proposal that CSR relates with consumer actions.

Methodology

Participants

Three hundred and twenty respondents in Kathmandu (aged 15-59) having income range of 150-1500 Rupees/day or \$1.46- \$14.57/day will be used as participants. Respondents will be the people currently residing in Kathmandu and hence having good exposure to marketing/promotions/CSR activities from different organizations, their products, and services. Informed consent will be received as the research will be direct and an incentive will be used to motivate people to participate on the research.

Design

Four in-depth interviews and four focus groups will be conducted first to understand consumer buying behavior towards corporations that are incorporating CSR. It is assumed that consumers earning less than 150 rupees/day or \$1.46/day will be price sensitive and they do not care much about CSR initiatives of the company. Therefore, there will be a limit on the sample for quantitative research to consumers from socio-economic class A and B. The respondents will be personally approached for interviews in Kathmandu, the largest city in Nepal. The respondents will be given material that includes a brief introduction about a hypothetical firm, its operations, products, services and some of its positive CSR record. Respondents will be free to ask any questions about the firm that they might have. Three hundred and twenty valid interviews will be conducted.

The constructs under consideration in this study are:

- a. Customer perception which includes a customer's idea, awareness regarding a company or its products. Customer perception is influenced by advertising, reviews, media and other such channels.
- b. Customer satisfaction which is the degree of satisfaction provided by the company's products and is measured by frequency of repeat customers.
- c. Corporate reputation which is based on past achievements of the company and its ability to deliver to customers and stockholders over time.
- d. Customer choice which determines what a customer will select given a choice of items or options.
- e. Corporate brand/influence which is the influence of advertising, media and other which may affect a customer's behavior.
- f. Customer attitude is the mind set with which the customer approaches the product.
- g. Customer purchasing behavior is the process by which individuals look for, choose, buy, use and dispose of products and services.

The responses to the items of these questionnaires are measures of the constructs under consideration, namely customer satisfaction, corporate reputation, customer choice, corporate brand/influence, customer attitude and customer purchasing behavior. Measures for the constructs used in the study will be available in the literature, and will be adapted to suit the specific context. Confirmatory factor analysis will be then performed on the constructs and finally, a multiple regression model will be developed from the results of the factor analysis.

Material

A color leaflet of a hypothetical firm that includes a basic introduction to a specific firm, its operations, and a positive CSR record will be used. The research will require two sets of pretested questionnaires for an in-depth interview and a focus group interview.

Data Collection and Analysis Procedure

A total of 320 interviews will be conducted. The letter of consent will be provided and collected three days prior to the interview. The incentives to be interviewed will be giveaways to the participants. A company profile will be presented before distribution of the questionnaire. Measures for all the constructs used in the study will be available in the literature, and will be adapted to suit the specific context. To check their validity, four focus groups (chosen at random) will be conducted with the respondents belonging to different socio-economic classes and educational backgrounds. Questions will be asked in sequence to avoid a layered affected answer. Focus groups will also be used to examine how consumers describe awareness, trust, and purchase intention. Each interview will last no more than 30 minutes and everything will be recorded. Participants will also be asked about their responses to real world CSR initiatives taken by some companies. To avoid desirability bias, respondents will be asked to write down their responses before discussing them. In-depth interviews will be conducted with groups of smaller numbers of respondents later to emphasize validity. The results will be helpful in discussing and revising some of the items. After scale development, 15 respondents will be asked to participate in the pretest of the questionnaire in which they state the problems encountered by them while answering the questions. The questionnaire will be revised to accommodate the small

changes indicated in the interview and then the questionnaire will again be pretested with another group of respondents before it will be finalized.

The independent variables for this study are consumers' perceived CSR and awareness of CSR and the dependent variable is consumers' purchase behavior.

Protection of Human Rights

To protect the rights of participants they will be asked to confirm their consent at least three days prior to the interview and they can choose to withdraw from the study at any time. The interviews will be anonymous and the subject's confidentiality will be protected. Each participant will be given a copy of the study when finished.

Discussion

It is expected in the research that the variables- trust, customer awareness and perceived CSR will influence the buying pattern of individuals which can turn out to be crucial in the dynamic market. The findings are believed to corroborate with the past studies conducted in western countries. In Nepal, awareness is expected to have positive correlation with consumers' purchase intention like what has previously been found in developed countries. More specifically, it is expected that consumers with a high level of awareness about CSR activities have a positive association with purchase intention. On the other hand, the study is supposed to emphasize the role of trust as an influencing factor between perceived CSR and purchase intention as it was conducted in China by Tian et al. (2010). This suggests that if consumers can have a trusting relationship with a specific firm, they reward the firm with positive perceptions which eventually results in greater buying of products. Becker-Olsen and Hill (2006) state that

“Perceived corporate motivation is likely to influence consumers’ attitudes toward firms and their social initiative”. One of the findings expected from the research is that consumers’ will be likely to respond based on their perception about CSR initiatives.

Managerial Implications

The implications expected from research from managerial perspective are that customers will perceive CSR positively and engage in buying behavior accordingly. More marketing effort will be expected to ensure consumers will associate the CSR campaign with products and services. It is expected that most of, many of customers (low income group) will not be aware of CSR and do not think much of it during their purchase. Increased CSR awareness and activities might be beneficial for firms in this competitive market and can be one of the things to consider for managers in Nepal and in a broad, sense the South Asian market.

Limitations and Future Research Directions

The questionnaire will be designed on the pattern of previous studies, which, for the sake of anonymity, will not disclose the name of the company. However, it will be important to disclose the name of the company to get a true picture of implications of CSR. Consumer preferences are influenced by brand reputation and choice. The questionnaire will not be specific to one product line which might not lead to explicit findings. The research paper will focus on the geographical area of Kathmandu. This city being the capital and the largest one of the nation could be sufficient for our sample but widening the geographical sample will help to further validate the findings. The paper helps to contribute to the study of CSR in developing countries to provide a better understanding of the perspective of consumers in the South Asian Region.

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