“Customers’ perception of Corporate Social Responsibility (CSR): its impact on word-of-mouth and retention”

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Customers’ perception of corporate social responsibility (CSR): its impact on word-of-mouth and retention

Abstract

Although CSR isn’t a new concept, it has once again become a subject of interest as it is a key concept for sustainable businesses and so no option anymore. The aim of the current research is to support managers in terms of determining the main CSR activities that have an impact on word-of-mouth (WOM) and customer retention in the mobile service providers’ sector in Egypt, as studies of CSR are limited in developing countries. The study investigates the direct effect of environmental, social and economic activities on WOM and retention. The research is built on data collected from 342 respondents. Most of the hypotheses are supported. The results of the proposed model indicate perfect fit of the data. The results suggest that CSR, especially the social and economic activities have a significant impact on WOM and both have a significant effect on retention when WOM mediates the relationship. The major implication of this study is for Egyptian mobile service providers to assist them in the implementation of the CSR activities that have a significant impact on customers’ retention and providing them with a positive word-of-mouth. For academics the study is useful as the study validates the importance of WOM as a mediator.

Keywords: corporate social responsibility (CSR), word-of-mouth (WOM), customer retention.

JEL Classification: M31.

Introduction

“Corporate social responsibility (CSR) is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources” (Kotler & Lee, 2005, p. 3). It has once again become a subject of interest since the beginning of the 2000’s due to rapid changes in world society, economy, environment and technology (Viralakul et al., 2009). A majority of reports and studies indicate that social responsibility is a necessity of today’s business (Udomkit, 2013) and so companies should understand that prosperity and survival can be achieved by treating society well, which will return the favor (Falck & Hebllich, 2007; Du Plessis & Gobler, 2013). CSR activities could be used as channels of communicating with stakeholders (Abugre and Nyuur, 2015). Profitability and sustainability act as motivators to practice CSR (Ofari et al., 2014). More and more money is being invested in CSR and although the investments in activities are intense, the results are still few and conflicting (Blomqvist & Posner, 2004). Since CSR has become a standard operating procedure for today’s companies as consumers are looking for relationships not just transactions, it could be an effective way to build relations that products can’t on their own (McElhaney, 2009). There is a direct relationship between social responsibility and the overall valuation of the service, where responsible behavior has commercial returns for the firm and so will be able to achieve better economic results (Garcia de los Salmones et al., 2005), in addition to the devotion and loyalty of stakeholders (Hildebrand et al., 2011), while irresponsible companies may face boycotts (Udomkit, 2013; Abd-Rahim et al., 2011). On the other side CSR efforts have been criticized from investors who claim misuse of shareholders’ money and interest groups including consumers who criticize companies for promising more than they deliver (Blomqvist & Posner, 2004). The real challenge lies in how CSR is implemented in a way that is compatible with the unique business conditions of each organization (Viralakul et al., 2009). Understanding the impact of CSR on consumer behavior could verify firms’ expenditures on CSR activities (Poolthong & Mandhacritara, 2009), where it has the potential to be a powerful marketing tool by helping companies position their products to employees (internally) and customers (externally) (Melikyan, 2010). Considering employees; CSR activities could be used to attract talents (McElhaney, 2009) and also have a positive effect concerning employees’ commitment to the organization (Ebeid, 2010). While considering the customers, the CSR strategies are used to penetrate new segments by introducing products related to customers’ interests (McElhaney, 2009). Since consumers are one of the most important stakeholder groups nowadays, they expect responsible behavior (Van Den Berg & Lidfor, 2012). They don’t only rely on the aspects of CSR activity but also contrast a company’s CSR activity with competitors (Gao, 2009). Hartmann et al. (2012) predicted the importance of the interest in CSR and consumers’ future patronage behavior. This interest in and awareness of CSR varies between and within countries (Veersalu, 2011). Egypt’s
culture which is influenced by its religious beliefs and so partially represented in a powerful culture of giving (Stiftung, 2007), lead to a positive attitude towards social responsibility. Social responsibility has become a basis for listing companies on the stock exchange according to the S&P/EGX ESG index (Egyptian Corporate Responsibility Index – launched in 2010) (Shehata, 2010). So, the aim of the current research is to study the impact of CSR on word-of-mouth and retention. Specifically, the current research divided the CSR activities into three groups according to the sustainability dimension which are social, environmental and economic. The research may provide more insights about the importance of CSR in Egypt, and how mobile service providers (MSP) customers perceive it, as it has its own unique culture and is considered a developing country, where these kinds of researches are still limited.

1. Literature review

This literature review is followed by a theoretical framework, as it provides guidance to complex studies (Evans et al., 2011). There is a link between the research hypotheses and the framework (Figure 1). The framework’s constructs are: social, environmental and economic activities, word-of-mouth and customer retention. The discussion of construct will lead to the hypotheses on which the study is based.

1.1. CSR and its dimensions. CSR has emerged as a priority for leading business in different countries (Porter & Kramer, 2006), as it is considered an integral part of the new business model (Hohnen, 2007). In marketing, social responsibility is considered as the acceptance of an obligation to balance between profits, social well-being and consumer satisfaction when a firm’s performance is evaluated (Kurtz, 2008). Metten & Moon (2008) revealed that there is no common definition or CSR, because it is a term that evolves over time. Since consumers don’t view CSR as an overall impression of a firm, rather each initiative is valued on its own and then may add to their overall proposition for a purchase (Green & Peloza, 2011). As different to many other studies which use Carroll’s pyramid of CSR (economic, legal, ethical and philanthropic dimensions) or CSR as a whole, the current study divided CSR activities performed by mobile service providers (MSP) into 3 groups which are social, environmental and economic. Rexhepi et al. (2013) mentioned that everything a company does has a flow impact inside and outside the company, with a triple effect that can be presented in three areas: social, environmental and economic. Wolzak et al. (2010) stated that CSR means reaching for (profit), while taking into account the effects it has on the environment (planet) and the social aspects, both internal and external (people). The three aspects will lead to higher accomplishments for the company and society when well balanced, and correctly implemented. As the idea of people, planet and profit means that whatever is good for environment and society is also good for the firm’s financial performance (Rahman, 2011).

1.2. CSR and word-of-mouth. Positive word-of-mouth is a way the satisfied customer recommends and so displays satisfaction with goods and services through informal networks and personal communications (Bansal & Voyer, 2000). An advantage is that the information is usually unbiased as the source of information has nothing to gain from the receiver (Shiffman & Kanuk, 2007). Bhattacharya & Sen (2004) concluded that one of the key behavioral outcomes of CSR activities is consumers’ willingness to talk positively about companies engaged in socially responsible activities. Hence the following hypotheses emerged:

\[ H1: \text{Social activities have a significant positive effect on word-of-mouth.} \]
\[ H2: \text{Environmental activities have a significant positive effect on word-of-mouth.} \]
\[ H3: \text{Economic activities have a significant positive effect on word-of-mouth.} \]

1.3. CSR and customer retention. Customer retention (repurchase intention) is defined as customers intending to buy from the same supplier or service provider, so long as their recent purchase experience has been satisfactory, as it ensures effective use of time and money (Johnson et al., 2001). It implies a long-term commitment between the customer and company to maintain their relationship (Wilson, 1995). Tong et al. (2012) confirmed that corporate social responsibility contributes to required customer behavior as the implementation of CSR in Hong-Kong retail banks leads to positive effects on customer repurchase intentions and word-of-mouth. Also Lee & Shin (2010) who surveyed Korean consumers concluded that social activities affected consumers purchase intentions while the environmental dimension had no significant effect on consumers purchase intentions. Jose et al. (2015) concluded that CSR activities affect repurchase intentions positively. As some consumers are influenced in purchase decisions by corporate responsibility considerations although this is a minority, still surveys overstate the influence of these concerns (Smith, 2003). Following the above discussion, this study hypothesizes that:

\[ H4: \text{Social activities have a significant positive effect on customer retention.} \]
\[ H5: \text{Environmental activities have a significant positive effect on customer retention.} \]
\[ H6: \text{Economic activities have a significant positive effect on customer retention.} \]

1.4. CSR and customer retention mediated by word-of-mouth. Pourrezzat et al. (2013) concluded that in the airline service sector word-of-mouth had a
significant positive effect on customers’ retention intention. Yu & Tang (2010) also reported that WOM would affect purchase intentions, and as previously concluded from the literature review significant relationships exist among CSR and word-of-mouth and retention, which makes it relevant to examine the importance of WOM as a mediator between CSR and retention, which is considered a contribution to literature. Hence the following hypotheses are proposed:

\( H7 \): Word-of-mouth has a significant positive effect on customer retention.

\( H8 \): The effect of social activities on customer retention is mediated by WOM.

\( H9 \): The effect of environmental activities on customer retention is mediated by WOM.

\( H10 \): The effect of economic activities on customer retention is mediated by WOM.

The theoretical model as illustrated in Figure 1 was conceptualized to explain the impact of CSR activities on word-of-mouth and customer retention. The paths between the variables are assumed as hypotheses to be tested.

2. Research methodology

2.1. Measurement. Established scales were used to measure all key constructs. The measurement items were modified in terms of wording to fit the research context and changed to a five point Likert scale. The perception of CSR activities was measured by dividing them into three dimensions which are social, environmental and economic activities with five measurement items each adopted from Jung (2012) and Chung et al. (2015). Word-of-mouth was measured with two items adopted from Casalo et al. (2008) and customer retention used a two item measurement as by Hennig-Thurau (2004).

2.2. Sample and procedure. Self-administered questionnaires were filled by respondents. The survey questions aim to test the hypotheses, using data obtained from mobile service providers’ customers from the three present mobile service providers in Egypt (Mobinil, Vodafone and Etisalat). An intercept sample of 342 respondents was gathered within a two months period, with an approximate 89% response rate. Table 1 presents a detailed analysis of participants’ descriptive statistics.

![Image of the theoretical framework](image-url)
2.3. Data analysis and results. The research uses partial-least-square based structural equation modeling (PLS-based SEM) with the statistic program Warp-PLS 5, and so the further steps are measurement model and structural model assessment.

2.3.1. Measurement model assessment. The model should be tested for indicator reliability, internal consistency, discriminant and convergent validity (Straub et al., 2004). Indicator reliability were evaluated through combined and cross loadings, results indicate that the measurement items were satisfied as they exceeded 0.50 (Hair et al., 2011). Also, internal consistency reliability was achieved by Cronbach’s alpha values which all are around 0.8 as threshold values for confirmative research should be more than 0.8 (Cronbach, 1951). Composite reliability values are all above 0.8, which is required in advanced stages of research (Nunnaly & Bernstein, 1994). Convergent validity was achieved as all AVE values are above 0.5 as proposed by Fornell & Larcker (1981) as in Table 2. Table 3 assures the discriminant validity using the Fornell-Larcker criterion where each AVE value of each latent variable is greater than the latent variable’s highest squared correlation with any other latent variable.

Table 2. Measurement items, validity and reliability analyses

<table>
<thead>
<tr>
<th>Construct</th>
<th>Measurement item</th>
<th>Factor loading</th>
<th>Cronbach alpha</th>
<th>Composite reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social activities</td>
<td>This MSP supports health issues.</td>
<td>.842</td>
<td>.882</td>
<td>.914</td>
<td>.681</td>
</tr>
<tr>
<td></td>
<td>This MSP supports education.</td>
<td>.883</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local non-profit organizations benefit from this MSP’s contribution.</td>
<td>.849</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP is involved with the local community.</td>
<td>.753</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP supports the disadvantaged.</td>
<td>.792</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental activities</td>
<td>This MSP is concerned with saving energy.</td>
<td>.660</td>
<td>.837</td>
<td>.885</td>
<td>.609</td>
</tr>
<tr>
<td></td>
<td>This MSP perceives the responsibility of preventing environmental pollution.</td>
<td>.830</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP promotes recycling.</td>
<td>.840</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP uses renewable resources.</td>
<td>.789</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP maintains environmental protection.</td>
<td>.769</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic activities</td>
<td>This MSP always improves its services.</td>
<td>.827</td>
<td>.665</td>
<td>.903</td>
<td>.651</td>
</tr>
<tr>
<td></td>
<td>This MSP provides fair prices for its services and goods.</td>
<td>.830</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP provides quality goods/services.</td>
<td>.860</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This MSP maintains a strong competitive position.</td>
<td>.757</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOM</td>
<td>I will recommend this MSP to my friends and relatives.</td>
<td>.945</td>
<td>.881</td>
<td>.944</td>
<td>.894</td>
</tr>
<tr>
<td>Retention</td>
<td>I will be doing more business with my current MSP.</td>
<td>.911</td>
<td>.795</td>
<td>.907</td>
<td>.830</td>
</tr>
</tbody>
</table>

Table 3. Correlations among latent variables with AVE’s square roots

<table>
<thead>
<tr>
<th></th>
<th>Social</th>
<th>Environment</th>
<th>Economic</th>
<th>WOM</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>0.825</td>
<td>0.610</td>
<td>0.506</td>
<td>0.518</td>
<td>0.452</td>
</tr>
<tr>
<td>Environment</td>
<td>0.610</td>
<td>0.780</td>
<td>0.492</td>
<td>0.479</td>
<td>0.412</td>
</tr>
<tr>
<td>Economic</td>
<td>0.506</td>
<td>0.492</td>
<td>0.807</td>
<td>0.782</td>
<td>0.681</td>
</tr>
<tr>
<td>WOM</td>
<td>0.518</td>
<td>0.479</td>
<td>0.782</td>
<td>0.945</td>
<td>0.775</td>
</tr>
<tr>
<td>Retention</td>
<td>0.452</td>
<td>0.412</td>
<td>0.681</td>
<td>0.775</td>
<td>0.911</td>
</tr>
</tbody>
</table>

2.3.2. Structural model assessment. As proposed by Hair et al. (2013) several criteria are needed to check the validity of the structural model.

2.3.3. Model fit assessment. The overall fit of the model was based on the measures in Table 4.

Table 4. Model fit and quality indices

<table>
<thead>
<tr>
<th>Fit measure</th>
<th>actual</th>
<th>p-values</th>
<th>Accepted fit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average path coefficient (APC)</td>
<td>0.247</td>
<td>p &lt; 0.001</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>Average R-squared (ARS)</td>
<td>0.628</td>
<td>p &lt; 0.001</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>Average adjusted R-squared</td>
<td>0.624</td>
<td>p &lt; 0.001</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>Average block VIF (AVIF)</td>
<td>1.952</td>
<td></td>
<td>acceptable if $k = 5$, ideally $k = 3.3$</td>
</tr>
<tr>
<td>Average full collinearity VIF</td>
<td>2.529</td>
<td></td>
<td>acceptable if $k = 5$, ideally $k = 3.3$</td>
</tr>
<tr>
<td>Tenenhaus GoF (GoF)</td>
<td>0.678</td>
<td>small $&gt; = 0.1$, medium $&gt; = 0.25$, large $&gt; = 0.36$</td>
<td></td>
</tr>
<tr>
<td>R-squared contribution ratio (RSCR)</td>
<td>1.000</td>
<td></td>
<td>acceptable if $R &gt; = 0.9$, ideally $R = 1$</td>
</tr>
</tbody>
</table>
As seen in Table 4, all values are within the accepted fit range, and therefore the model has a good fit.

2.3.4. Model validity. Coefficient of determination ($R^2$) and predictive relevance ($Q^2$) are measured, and as seen in Table 5, values as substantial for $R^2$ as values are around (0.67) (Chin, 1998) and $Q^2$ is relevant as it exceeds 0 and is more predictive as higher (Fornell and Cha, 1994).

<table>
<thead>
<tr>
<th>Construct</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOM</td>
<td>.734</td>
<td>.731</td>
<td>Substantial</td>
</tr>
<tr>
<td>Retention</td>
<td>.721</td>
<td>.717</td>
<td>Substantial</td>
</tr>
</tbody>
</table>

Table 5. Model validity

2.3.5. Path coefficients evaluation. As shown in Table 5, social and economic activities have a significant positive impact on word-of-mouth and so $H_1$ and $H_3$ are accepted, while environmental activities had no significant impact on WOM, and so $H_2$ is rejected. Considering the impact of social and environmental activities, both had no significant impact on customer retention and so $H_4$ and $H_5$ are rejected as opposed to economic activities which have a significant effect and so $H_6$ is accepted. Also a positive significant effect is presented by the word-of-mouth on customer retention and so $H_7$ is accepted. Word-of-mouth acted as a full mediator in as the effect of social activities on retention became significant when mediated by WOM and so $H_8$ is accepted. The effect of environmental activities on retention remains insignificant when mediated by WOM and so $H_9$ is rejected, while WOM acts as a partial mediator in increasing the effect of economic activities on retention and so accepting $H_{10}$.

Table 6. Evaluation of path coefficients

<table>
<thead>
<tr>
<th>H</th>
<th>Exogenous variable</th>
<th>Mediator</th>
<th>Endogenous variable</th>
<th>Path coefficient</th>
<th>$p$-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H_1$</td>
<td>Soc</td>
<td>-</td>
<td>WOM</td>
<td>0.140</td>
<td>0.010*</td>
<td>Accept</td>
</tr>
<tr>
<td>$H_2$</td>
<td>Env.</td>
<td>-</td>
<td>WOM</td>
<td>0.060</td>
<td>0.143</td>
<td>Reject</td>
</tr>
<tr>
<td>$H_3$</td>
<td>Eco.</td>
<td>-</td>
<td>WOM</td>
<td>0.681</td>
<td>&lt; 0.001**</td>
<td>Accept</td>
</tr>
<tr>
<td>$H_4$</td>
<td>Soc</td>
<td>-</td>
<td>Ret.</td>
<td>0.046</td>
<td>0.130</td>
<td>Reject</td>
</tr>
<tr>
<td>$H_5$</td>
<td>Env.</td>
<td>-</td>
<td>Ret.</td>
<td>0.005</td>
<td>0.451</td>
<td>Reject</td>
</tr>
<tr>
<td>$H_6$</td>
<td>Eco.</td>
<td>-</td>
<td>Ret.</td>
<td>0.198</td>
<td>&lt; 0.001*</td>
<td>Accept</td>
</tr>
<tr>
<td>$H_7$</td>
<td>WOM</td>
<td>-</td>
<td>Ret.</td>
<td>0.597</td>
<td>&lt; 0.001**</td>
<td>Accept</td>
</tr>
<tr>
<td>$H_8$</td>
<td>Soc</td>
<td>WOM</td>
<td>Ret.</td>
<td>0.084</td>
<td>0.010*</td>
<td>Accept</td>
</tr>
<tr>
<td>$H_9$</td>
<td>Env.</td>
<td>WOM</td>
<td>Ret.</td>
<td>0.036</td>
<td>0.142</td>
<td>Reject</td>
</tr>
<tr>
<td>$H_{10}$</td>
<td>Eco.</td>
<td>WOM</td>
<td>Ret.</td>
<td>0.407</td>
<td>&lt; 0.001**</td>
<td>Accept</td>
</tr>
</tbody>
</table>

Abbreviations: soc. = social activities, env. = environmental activities, eco. = economic activities, WOM = word-of-mouth, ret. = retention. **Significant at < 0.001, *significant at < 0.05.

Conclusion

The current research aims at investigating the effects of CSR (social, environmental and economic activities) on WOM and customer retention. The research concluded that social and economic activities had a positive and significant effect on word-of-mouth which is in line with Hong & Rim (2010) who concluded that CSR leads to positive word-of-mouth. Also social and economic activities positively affected customer retention as with Lin et al. (2011), Groza et al. (2011) studies where CSR influences purchase intentions. Environmental activities had no significant effect on either WOM or retention which is in line with Macarulla & Talalweh (2012) who mentioned that environmental responsibilities are not priorities in developing countries, as they have other more important needs. Regarding the current research’s results, the author argue that CSR leads to better WOM and retention intention, but the mentioned insignificant effects may be due to low perception of customers and so more efforts must be done by corporations to make customers aware.

Limitation and further research

The results are tempered by several limitations. First, the current research relies on perceived measures, which may differ to results of studies which use actual measures. Second, the study is applied only on the mobile service sector, and third, only considering customers. So, to add generalizability, the study should be applied to other sectors and take other stakeholders into consideration such as employees and stockholders. Despite the limitations, the current research is valuable as it provides insights to the influence of CSR activities based on a sustainability approach for its domains, and its effect on WOM and customer retention, where WOM is also considered as a mediator. Studies about CSR and results are still limited in developing countries like Egypt.
References


