

The Effects of CSR on Customer Satisfaction and Loyalty in China: The Moderating Role of Corporate Image

Ki-Han Chung, Ji-Eun Yu, Myeong-Guk Choi, and Jae-Ik Shin

Abstract—In the face of growing worldwide interest in corporate social responsibility (CSR), this paper explores how CSR factors influence customer satisfaction and loyalty and whether the moderating effects of corporate image in the relationships between CSR and customer satisfaction and customer loyalty are or not. There may be the difference of perceptions of CSR between consumers of developing and developed countries. This study used structural equation modeling (SEM) to test the hypotheses. The findings show that CSR positively affects customer satisfaction and loyalty, and customer satisfaction positively affects customer loyalty. The importance order of CSR factors is as follows: consumer protection, philanthropic responsibility, legal responsibility, ethical responsibility, economic responsibility, and environmental contribution. The moderating effect of corporate image in the relationship between CSR and customer satisfaction is identified. Thus, managers should put CSR factors into action in the perspective of consumers, which will encourage customers to perceive the firms more favorably. The conclusion draws implications for marketing practice and future research.

Index Terms—Corporate image, customer loyalty, customer satisfaction, CSR.

I. INTRODUCTION

To date, corporate social responsibility (CSR) has primarily been treated as a corporate issue. The majority of the literature on this topic takes a management perspective. It discusses how companies can best respond to specific demands of largely external stakeholders, which CSR initiatives enhance corporate performance, and what motivates companies to become engaged in CSR [1]. A survey shows that 76 percent of executives believe that CSR contributes positively to long-term shareholder value, and 55 percent agree that the sustainability helps their companies build a strong reputation [2]. In addition, the degree of CSR level can display the whole performance of the company and what kind of this company is. It is very popular international tide and economy ways. Indeed, CSR efforts are driven not just by ideological thinking that corporations can be a powerful and positive force for social change, but more by the multi-faceted business returns that corporations can potentially reap from their CSR endeavors [3].

Similarly, CSR can be an important factor in the progress of Chinese economic market. China has also recognized its importance either legally or by national policies since the

year 2006 [4]. This paper attempts to understand the level of consumer perceptions related to CSR in China by criteria for evaluating social performance of business firms. The social performance varies along a continuum that ranges from compliance-acting to avoid adverse consequences, to conviction-acting to create positive impact. The continuum also varies in commitments to four criteria for evaluating social responsibility practices: economic, legal (environmental contribution and consumer protection), ethical, and philanthropic [5].

The purpose of this study is to identify how CSR influences customer perceptions of customer satisfaction and customer loyalty, as well as the importance order of CSR factors in China. It is also to examine the moderating effects of corporate image in the relationships between CSR and customer satisfaction and customer loyalty.

II. THEORETICAL BACKGROUND AND HYPOTHESIS

A. Corporate Social Responsibility

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 both good for business and good for development” [6]. Kotler and Lee [7] defined CSR as “a commitment to improve societal well-being through discretionary business practices and contributions of corporate resources”. CSR activities are broadly conceptualized as the company’s status and activities with respect to its perceived societal obligations [8], [9]. In the words of Campbell [10] “CSR sets a minimum behavioral standard that aims at doing no harm to stakeholders and if it has happened then rectifies it as soon as it is identified”.

Consumers evaluate companies as well as products in terms of CSR, whereby negative CSR associations are more influential and have a more detrimental effect than positive ones. However, positive associations do boost company and product evaluations [11]. The influence of CSR on consumers’ purchase intentions is more complex than previously thought, in that CSR can affect purchase intentions directly or indirectly.

Thus, the theoretical and empirical evidence has suggested that CSR activities in consumers' evaluation situation that are perceived more positively lead to higher customer satisfaction and loyalty. This study focuses on CSR activities in China, such as philanthropic, ethical, legal, and economic responsibility, environmental contribution, and consumer protection.

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B. Customer Satisfaction

Boshoff and Gray [12] underlined that satisfaction is not inherent in the product or the service itself but, instead, satisfaction primarily consists in the consumer's perceptions of the attributes of the product or service as they relate to that individual. Thus, different consumers will express varying levels of satisfaction for the same experience or service encounter [13]. In the marketing literature, customer satisfaction has been recognized as an important part of corporate strategy [14] and a key driver of firm long-term profitability and market value [15]. Thus, it is expected that CSR is positively related to customer satisfaction.

- H1: Customer's perception of CSR positively influences customer satisfaction.

C. Customer Loyalty

As customer loyalty is considered a vital objective for a firm's survival and growth, building a loyal customer base has not only become a major marketing goal [16], but it is also an important basis for developing a sustainable competitive advantage [17] (Dick and Basu, 1994). Understanding loyalty cultivation or retention is thus considered to be a key element in delivering long-term corporate profitability [18], [19] as profits can be increased over the lifetime of a customer through his/her retention [20].

Prior research has demonstrated that CSR has an important impact on consumers' attitudes, purchase intentions, consumer-company identification, loyalty, and satisfaction. Initial studies indicate that consumers take a firm's commitment to CSR initiatives into account when evaluating companies and their products [21].

It is widely agreed that customer satisfaction leads to customer retention [22], purchase intentions [23] and word-of-mouth [24]. Thus, it is expected that CSR and customer satisfaction are positively related to customer loyalty.

- H2: Customer's perception of CSR positively influences customer loyalty.
- H3: Customer satisfaction positively influences customer loyalty.

D. The Moderating Effect of Corporate Image

Nguyen [25] defines corporate image as consumer's response to total offerings and is related to business name, architecture, variety of products/services, tradition, ideology, and to the impression of quality communicated by each person interacting with the organization. Previous research indicates that having a favorable corporate image and reputation can provide a company with a distinctive and credible appeal, as well as a more effective form of differentiation and a source of competitive advantage. It is believed that corporate image is not just a matter of window dressing but a reliable indicator of whether a company will survive in the future [26].

According to Dowling [27], the attributes of corporate image and reputation give rise to two classes of factors: one is more factual in nature including corporate capabilities and financial performance while the other is a more emotionally

driven such as social accountability and the distinctiveness or personality of the organization. A societal marketing program and corporate communications can create positive consumer attitudes toward corporate image [28]. Companies can craft powerful, compelling images that appeal to consumers' social and psychological needs [29] (Kotler and Keller, 2012).

- H4: The effect of CSR on customer satisfaction is greater for high group of perception of corporate image than for low group.
- H5: The effect of CSR on customer loyalty is greater for high group of perception of corporate image than for low group.
- H6: The effect of customer satisfaction on customer loyalty is greater for high group of perception of corporate image than for low group.

The hypothesized relationships we investigate are shown in Fig. 1.

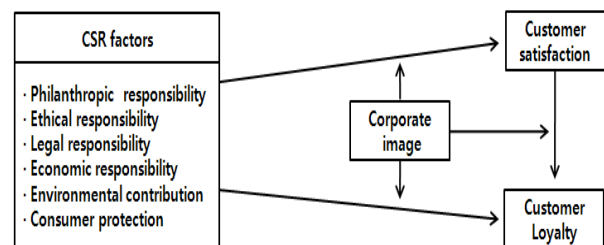


Fig. 1. The proposed model.

III. METHODOLOGY

A. Data Collection

The questionnaire was originally developed in English and was translated into Chinese. It was then back-translated by a second bilingual person to ensure greater equivalence of meaning. Both translators were professionals in their fields. The survey included perception of CSR factors, corporate image, customer satisfaction, customer loyalty and demographic information.

For the data collection, web-based survey through e-mail and social networks was conducted in Liaoning, Beijing, Shanghai and Shandong province of East of China. The participants were asked to respond to the survey questionnaires based on their most recent experiences. The online survey form was distributed to 500 participants. A total of 276 usable responses were collected from the 500 participants, producing a response rate of 55.2 percent.

B. Questionnaire Development

All items used in this study were measured on a seven-point Likert-type scale (1= strongly disagree and 7= strongly agree). The survey questions are presented in the Table I.

IV. HYPOTHESIS TESTING

A. Sample Profile

TABLE I: SAMPLE PROFILE

City		Position		Age	
Liaoning	57.00%	Student	35.70%	18-24	29.00%
Shandong	15.00%	Company employee	48.30%	25-30	60.70%
Beijing	13.00%	Government official	3.70%	31-40	8.30%
shanghai	8.30%	Others	12.30%	Gender	
Guangdong	3.30%			Male	52.70%
Jilin	3.30%			Female	48.30%
N=276					
Education level		Know CSR		The level of CSR	
Under high school	0.30%	Yes	53.70%	Low	45.70%
High school	2.30%	No	46.30%	Middle	51.70%
College graduate	64.70%			High	2.70%
Postgraduate or Ph.D.	32.70%				

TABLE II: MEASUREMENT ITEMS

Constructs	Measurement items	Authors
Philanthropic responsibility	1. This firm supports culture and art activities of local community.	Carroll & Shabana (2010)
	2. Managers and employees participate in charitable activities of their local communities.	
	3. This firm supports private and public educational institutions.	
	4. This firm assists to enhance quality of life in the local community.	
Ethical responsibility	1. This firm operates in a manner consistent with expectations of societal and ethical norms.	
	2. This firm recognizes and respects new ethical/moral norms.	
	3. This firm prevents unethical behaviors in order to achieve organizational goals.	
	4. This firm make efforts to be good citizenship.	
Legal responsibility	1. This firm operates business in a manner consistent with expectations of government and law.	
	2. This firm obeys various federal, state, and local regulations.	
	3. This firm fulfills its legal obligation.	
	4. This firm meets minimal legal requirements related to goods and service.	
Economic responsibility	1. This firm focuses on maximizing earnings.	
	2. This firm is committed to profitability.	
	3. This firm has a strong competitive position.	
	4. This firm seeks a profitable business.	
Environmental contribution	1. This firm practices recycling pollutants and wastes.	Sandhu & Kapoor (2010)
	2. This firm invests in energy conservation.	
	3. This firm manufactures eco-friendly products.	
	EC4. This firm sets out effluent treatment plant.	
Consumer protection	1. This firm makes efforts to improve product quality.	
	2. This firm settles customers' complaints quickly.	
	3. This firm practices product improvement by customers' requirement.	
	4. This firm makes efforts to improve customer service.	
Corporate image	1. This firm has an overall clean reputation.	Ishaq(2012), Yeo et al.(2011)
	2. This firm is open to consumers.	
	3. This firm has good transparency.	
Customer satisfaction	1. The policy of CSR of this firm meets my expectation.	Kaur and Soch (2012)
	2. Overall, I am satisfied with CSR activities of this firm.	
	3. Overall, I am satisfied with product and service of this firm.	
Customer loyalty	1. I would like to positively speak to surrounding people about this firm.	Ishaq(2012)
	2. I would like to patronize this firm.	
	3. I would like to recommend this firm to colleagues who seek my advice.	

B. Validity and Reliability of Measures

All confirmatory factor loadings exceeded the accepted level of 0.5, and all factor loadings were significant at the level of 0.01 [30] (Anderson and Gerbing, 1988). Furthermore, average variance extracted (AVE) of all

constructs exceeded the recommended 0.5 threshold [31] (Hair et al., 1998). Discriminant validity was also assessed by comparing the AVE with the squared correlations between the two constructs was less than the AVEs, which suggests that the constructs were distinct [32] (Ha, 2012).

TABLE III: CONFIRMATORY FACTOR ANALYSIS

Variables	Items	Estimate	S.E.	Standardized estimate	C.R.**	Composite reliability	AVE
Philanthropic responsibility	PR2	0.931	0.063	0.896	14.706	0.871	0.697
	PR3	1.000	-	0.897	-		
	PR4	0.681	0.065	0.669	10.485		
Ethical responsibility	ER1	0.980	0.095	0.807	10.328	0.815	0.596
	ER2	1.000	-	0.846	-		
	ER3	0.664	0.079	0.593	8.352		
Legal responsibility	LR1	1.000	-	0.744	-	0.829	0.618
	LR2	0.831	0.101	0.776	8.209		
	LR3	0.84	0.084	0.728	10.051		
Economic responsibility	ECR2	0.925	0.053	0.852	17.354	0.896	0.742
	ECR3	1.000	-	0.952	-		
	ECR4	0.825	0.052	0.794	15.895		
Environmental contribution	EC1	0.898	0.168	0.744	5.332	0.838	0.721
	EC2	1.000	-	0.734	-		
Consumer protection	CP2	0.777	0.084	0.720	9.236	0.832	0.623
	CP3	1.000	-	0.811	-		
	CP4	0.929	0.095	0.705	9.781		
Corporate image	CI1	0.906	0.067	0.825	13.443	0.876	0.703
	CI2	1.000	-	0.874	-		
	CI3	0.840	0.064	0.758	13.033		
Customer satisfaction	CS1	0.893	0.046	0.875	19.503	0.943	0.847
	CS2	1.000	-	0.923	-		
	CS3	0.969	0.050	0.915	19.429		
Customer loyalty	CL1	0.968	0.050	0.932	19.409	0.852	0.664
	CL2	1.000	-	0.926	-		
	CL3	0.725	0.069	0.630	10.521		

Note: $\chi^2(263)=439.90, p=0.000, GFI=0.878, AGFI=0.842, TLI=0.936, CFI=0.964, RMSEA=0.050, ^a$ Reference variables, $** p<0.01$

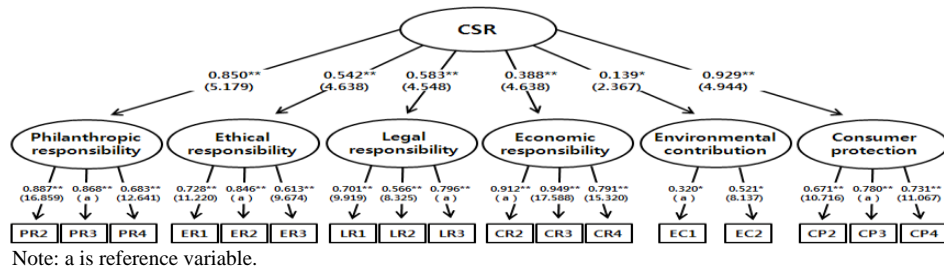


Fig. 2. A second-order factor analysis.

TABLE IV: DISCRIMINANT VALIDITY ANALYSIS

Factors	Mean	Standard deviation	1	2	3	4	5	6	7	8	9
Philanthropic responsibility	4.603	0.996	0.697								
Ethical responsibility	4.548	0.954	0.408**	0.596							
Legal responsibility	4.470	1.022	0.514**	0.439**	0.618						
Economic responsibility	5.425	1.032	0.226**	0.339**	0.240**	0.742					
Environmental contribution	3.918	1.304	0.114	0.171*	0.150	0.035	0.721				
Consumer protection	4.459	1.075	0.567**	0.388**	0.616**	0.183**	0.118*	0.623			
Corporate image	4.473	0.925	0.464**	0.362**	0.461**	0.358**	0.314**	0.581**	0.703		
Customer satisfaction	4.477	1.030	0.444**	0.262**	0.442**	0.273**	0.179**	0.475**	0.556**	0.847	
Customer loyalty	4.101	1.002	0.415**	0.270**	0.425**	0.199**	0.029	0.423**	0.486**	0.628**	0.664

Note: The bold scores are the AVEs of each construct. * $p<0.05, ** p<0.01$

C. Results of Structural Model

TABLE V: THE RESULTS OF HYPOTHESIS TESTING

Hypothesis	Independent variable	Path	Dependent variable	Standardized estimate	S.E.	t-value	p-value	Result
H1	CSR	→	Customer satisfaction	0.592	0.258	5.231**	0.000	Accept
H2	CSR	→	Customer loyalty	0.190	0.078	2.454*	0.014	Accept
H3	Customer satisfaction	→	Customer loyalty	0.655	0.063	4.637**	0.000	Accept

Note: $\chi^2(221)=348.94, p=0.000, GFI=0.907, AGFI=0.874, NFI=0.908, TLI=0.949, CFI=0.959, RMSEA=0.051^* p<0.05, ** p<0.01$

TABLE VI: TEST OF THE MODERATING EFFECT OF CORPORATE IMAGE

Paths	Low		High		Free model	Constrained model
	Coefficient	t-value	Coefficient	t-value		
CSR→ customer satisfaction	0.426	0.859	0.509	3.482	$\chi^2(442)=818.19$	$\chi^2(443)=822.30$
Chi-square difference test: $\Delta \chi^2(1)=4.11, p<0.05$ (significant). H4 is supported.						
CSR→ customer loyalty	0.198	0.012	0.508	2.366	$\chi^2(442)=818.19$	$\chi^2(443)=819.25$
Chi-square difference test: $\Delta \chi^2(1)=1.06, p>0.05$ (insignificant). H5 is not supported.						
Customer satisfaction→ customer loyalty	0.294	5.315	0.275	5.226	$\chi^2(442)=818.19$	$\chi^2(443)=818.35$
Chi-square difference test: $\Delta \chi^2(1)=0.16, p>0.05$ (insignificant). H6 is not supported.						

V. CONCLUSION

In the following sections, we discuss the implications of our findings in the Chinese CSR setting. We also identify some limitations of current study and suggest topics for future research. This study contributes to an overall understanding of CSR level in China by examining a nomological network of constructs leading to customer loyalty. Building a loyal customer base is an important foundation for developing a sustainable competitive advantage through customer satisfaction. This study examines whether CSR factors can play a role in enhancing customer satisfaction and loyalty or not in China. This study also investigates the moderating effects of corporate image in the relationships between CSR and customer satisfaction and loyalty.

Several theoretical and practical implications arise from these findings. First, environmental contribution and consumer protection were added to Carroll [33]’s CSR constructs (economic, legal, ethical and philanthropic responsibilities) in this study. This is because many Chinese people are concerned with environmental contribution and consumer protection recently. This study shows that CSR positively influences customer satisfaction more than customer loyalty and consumer protection is the most important factor of CSR while environmental contribution is the least factor. It is necessary to educate consumers on the importance of environmental contribution.

Second, the moderating effect of corporate image in the relationship between CSR and customer satisfaction is identified. It is important that the higher the level of corporate image is CSR has a positive effect on customer satisfaction more. Customer perception of corporate image is important

and has consequences for customer satisfaction. Customer expectations towards CSR activities lead to stronger evaluations of corporate image. Therefore, firms should ensure that they proactively maximize their CSR budgets. Firms may consider their involvement in some CSR initiatives such as community and environment support and customer relations. In order to increase customer intentions for repeat business, firms’ involvement in CSR activities tend to increase favorable attitudes of their customer which results in behavior disposition.

Third, while firms have an obligation to promote social welfare and to behave as good corporate citizens, it is important that they spend the resources allocated to CSR initiatives in ways that yield optimum benefits to society as well as to the stakeholders of the company.

Fourth, China’s rapid economic growth has sparked considerable interest in the many countries. Recently Chinese consumers have taken more interests in the companies’ CSR activities. CSR has primarily been treated as a corporate issue while CSR initiatives enhance corporate performance. Because Chinese economy has already played a crucial role as growth engines of global economy, its CSR policy is more likely to influence foreign companies’ activities. Thus, in order to survive and succeed Korean firms should understand how Chinese consumers perceive CSR activities.

The findings of this study should be interpreted with caution because there are some limitations. First, this study has the limitation of being a cross-sectional research design. With a cross sectional design, the implications of customers’ changed attitude on CSR activities over time would not be detected. A longitudinal and qualitative study would provide further theoretical details underlying the findings of this study.

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