Corporate social responsibility as a determinant of consumer loyalty:
An examination of ethical standard, satisfaction, and trust

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ABSTRACT

Factors promoting loyalty are of great interest to both academics and practitioners because consumer loyalty is a notable predictor of business success. This study identifies the congruency between consumer values and the goals of corporate social responsibility (CSR) activities and corporate ethical standards as the two main determinants of CSR quality and commitment. It further investigates how consumer perceptions of CSR shaped by these two factors increase loyalty. The results of structural equation modeling analysis (N = 931) reveal that higher ethical standards leads consumers to perceive that the company is committed to its CSR activities. The company's CSR commitment induces greater satisfaction with and trust in the company and its services, which then ultimately encourages consumers to remain loyal.

Keywords:
Corporate social responsibility
Consumer loyalty
Satisfaction
Trust

1. Introduction

As consumer loyalty plays an integral role in business success in competitive markets (Kotler & Armstrong, 2010; Oliver, 1999; Orel & Kara, 2014), ample studies have examined the various factors that motivate consumers to remain loyal to a company's products and services. However, little emphasis has been placed on the effect of corporate social responsibility (CSR) on attracting loyal consumers and increasing their number (Liu, Guo, & Lee, 2011). CSR typically consists of legal, ethical, and philanthropic responsibilities that represent the company's concern for society (Stanaland, Lwin, & Murphy, 2011), which also functions as a self-regulatory mechanism that monitors whether the company complies with these responsibilities. Applying this concept as one possible way to increase consumer loyalty, this study explicates how some of the determinants and outcomes of CSR influence loyalty in the retail industry.

Earlier studies primarily investigated the role of CSR in improving financial performance and product evaluations by focusing on the corporate perspective of CSR activities (McWilliams, Siegel, & Wright, 2006; Lee, Park, Rapert, & Newman, 2012). Although the importance of CSR in shaping consumer perceptions and valuations of a company is being increasingly recognized (Maignan, Ferrell, & Hult, 1999; Christopher & Luke, 2013), consumer awareness of CSR remains low, and companies frequently have unsatisfactory results despite the large amount of resources dedicated to their CSR activities (Lee et al., 2012). Therefore, companies and researchers should explore the factors associated with consumer perceptions of CSR and investigate their role in shaping consumer loyalty.

Accordingly, this study examines CSR from the consumer rather than the corporate perspective by focusing on the value relevance (i.e., fit between a consumer's values and CSR) and the ethical standards of CSR activities as the two main determinants of CSR quality and commitment. We predict that higher value relevance and ethical standards lead consumers to perceive that the company is committed to its CSR activities, which, in turn, induces greater satisfaction with and trust in the company and its services. Consequently, consumers are likely to remain loyal to the company.

2. Literature review and hypotheses

2.1. Value relevance of CSR

Human values are the foundation of individuals’ thoughts and behaviors (Schwartz, 1994). Values are built and strengthened by personal experiences and used as standard measures to evaluate particular objects and people (Jansson, Marell, & Nordlund, 2010; Olsen, Thach,
More importantly, each individual has a unique standard and configuration (Kahle, 1996). Therefore, when a company's product or service matches an individual's personal values, that person is likely to evaluate the company more positively.

Applying the concept of human values to the CSR context, prior studies found that consumer awareness and evaluations of CSR actions are mainly determined by their own values (Basil & Weber, 2006; Golob, Lah, & Jančič, 2008; Wang & Justis, 2012). Thus, it is plausible that consumer perceptions of a company's CSR quality and commitment are positively influenced when the consumers' personal values are congruent with the company's CSR goals or activities. Based on this rationale, the following hypothesis is proposed:

H1. Perceptions of a company's value relevance are positively related to the perception that the company is committed to CSR.

2.2. Ethical standards

Ethical responsibility refers to the degree to which a company abides by society's moral rules and appropriate behaviors, and determines the perceived level of a company's commitment to CSR activities (Maignan et al., 1999; Stanaland et al., 2011). Companies with high ethical standards, for example, would provide consumers with complete and accurate information about their products and services, offer a comprehensive code of conduct, and implement precautionary measures to process sensitive personal information. More importantly, companies should explain and promote their cautionary measures to process sensitive personal information. The quality of the ethical standards is likely to influence consumer perceptions of the company's level of commitment to CSR. This leads to the following hypothesis:

H2. Perceptions of a company's ethical standards are positively related to the perception that the company is committed to CSR.

2.3. Perceived commitment to CSR

Studies have long probed the relationship between CSR and consumer perceptions of a company, finding that CSR is a key element of corporate success that positively affects consumer evaluations of and responses to products or services (Brown, 1998; Luo & Bhattacharya, 2006). Implementing appropriate CSR plans and activities contribute to more favorable consumer attitudes (Bhattacharya & Sen, 2003; Folkes & Kamins, 1999) and greater satisfaction with the company (Berens, Riel, & Bruggen, 2005; de los Salmones, Crespo, & del Bosque, 2005; Lichtenstein, Drumwright, & Braig, 2004). Ultimately, this induces a positive effect on consumers in their evaluation of the company and its products (de los Salmones et al., 2005; Mohr, Webb, & Harris, 2001). Therefore, consumers tend to be more satisfied and give a more positive evaluation when they believe that the company is committed to its CSR activities (Gürhan-Canli & Batra, 2004; Mandachitara & Poothong, 2011; Sen & Bhattacharya, 2001). Similarly, CSR is also closely related to moral concepts such as trust, which helps to establish trustworthy relationships between internal and external stakeholders (Coulter & Coulter, 2002; Lantos, 1999; Orlitzky & Benjamin, 2001). Therefore, this study proposes the following hypotheses to validate the importance of a company's CSR commitment:

H3. Perceptions of a company's commitment to CSR are positively related to consumer satisfaction with the company.

H4. Perceptions of a company's commitment to CSR are positively related to consumer trust in the company.

2.4. Trust

According to the commitment-trust theory, trust is “the degree of confidence in an exchange partner’s reliability and integrity” (Morgan & Hunt, 1994). Pavlou and Fygenson (2006) extended this definition and conceptualized trust as the degree to which consumers believe that a company acts favorably, ethically, legally, and responsibly. Several scholars indicated that feelings of trust lead to a positive impression of a company (Pavlou & Chai, 2002; Pavlou & Fygenson, 2006). Consumers feel confident about the quality of a product or service when they trust the company and believe that trustworthy companies carry greater ethical and social responsibilities. Such confidence leads consumers to repurchase and reuse services or products from a company that they trust (Gefen, Straub, & Boudreau, 2000). More specifically, trust in service providers is found to be a significant determinant of consumer satisfaction and repurchase intentions in the mobile commerce context (Kim, Park, & Jeong, 2004; Lin & Wang, 2006; Sharp & Sharp, 1997; Weisberg, Te’eni, & Arman, 2011).

Trust also has positive effects on consumer loyalty (Garbarino & Johnson, 1999; Singh & Sirdeshmukh, 2000). The relationships between trust and loyalty (Alhakeeb, 2007; Ribbink, van Riel, Liljander, & Streukens, 2004; MacIntosh & Lockshin, 1997; Cyr, 2008; Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009), and trust and satisfaction (Cyr, 2008; Fang et al., 2014; Sirdeshmukh, Singh, & Sabol, 2002).

Table 1 Questionnaire items used in the survey.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Description</th>
<th>Source</th>
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<tbody>
<tr>
<td>Value relevance</td>
<td>VR1: The company’s CSR activities are relevant to my values. VR2: Overall, I think my values fit well with the company’s CSR activities. VR3: The company’s CSR activities and my values are similar.</td>
<td>Gould-Williams, Mostafa, and Bottomley (2013), Hem, Iversen, and Olsen (2014), Lee et al. (2012)</td>
</tr>
<tr>
<td>Ethical standards</td>
<td>ES1: The company’s code of ethics is great compared to other organizations in the industry. ES2: The company’s ethical statements are generally good compared to other organizations in the industry. ES3: The company’s corporate credo is great compared to other organizations in the industry.</td>
<td>Stanaland et al. (2011)</td>
</tr>
<tr>
<td>Commitment to CSR</td>
<td>CC1: The company is committed to contributing part of its profits to help non-profits. CC2: I think the company continually improves the quality of its products and services. CC3: I think that the company gives sustainable support to programs with good social causes.</td>
<td>Kang and Hustvedt (2014), Qu (2014)</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>ST1: My experience with the company has been satisfactory. ST2: The company provides excellent services or products. ST3: My choice to contact the company was a wise one.</td>
<td>Chen, Lai, and Ho (2015), Loureiro, Sardinha, and Reijnders (2012)</td>
</tr>
<tr>
<td>Trust</td>
<td>TR1: I trust the company to be sincere in dealing with consumers. TR2: The company is very responsive. TR3: I think the company provides reliable information to its consumers.</td>
<td>Bowden-Everson, Dagger, and Elliott (2013), Stanaland et al. (2011)</td>
</tr>
<tr>
<td>Loyalty</td>
<td>LT1: I consider the company as my first choice when purchasing such services and products. LT2: I always say positive things about the company to other people. LT3: I intend to contact the company for my next purchase of this product or service.</td>
<td>Blut, Beatty, Evanschitzky, and Brock (2014), Homburg, Stierl, and Bornemann (2013)</td>
</tr>
</tbody>
</table>
Wetsch, 2006) have been major research topics in various areas. For instance, Wagner and Rydstrom (2001) showed that consumers with greater trust in online retailers tend to be more committed to their services. Similarly, Lee, Huang, and Hsu (2007) found that trust induces greater trust in online retailers, which ultimately leads to greater consumer loyalty. Additionally, Reichheld and Schefter (2000) argued that consumers are likely to form continuous and affective commitment to retail service brands, influenced by the quality of their experience and communication with the service provider (Crosby, Evans, & Cowles, 1990). It is also influenced by the price and quality of the service, and by individual characteristics such as age and gender (Zeithaml, Bitter, & Gremler, 2006).

Moreover, satisfaction has positive effects on consumer loyalty (Gronholt, Martensen, & Kristensen, 2000; Homburg & Giering, 2001; Lee, Lee, & Feick, 2001). The relationship between satisfaction and loyalty has been an intriguing research topic in various fields (Homburg & Giering, 2001; Lam, Shankar, Erramilli, & Murthy, 2004; Lee et al., 2001; Olsen, 2002). For example, Lee et al. (2007) argued that a high level of satisfaction creates commitment-inducing bonds between the company and consumers, with feelings of fulfillment and pleasure. When consumers are satisfied with the company, they are likely to form continuous and affective commitment to its products. Therefore, this study proposes the following hypotheses:

H5. Perceptions of trust in a company are positively related to consumer satisfaction with the company.

H6. Perceptions of trust in a company are positively related to consumer loyalty towards the company.

2.5. Satisfaction

Satisfaction refers to an emotional state resulting from a consumer evaluation of a service provided by a company and his/her response to it (Westbrook, 1987). Therefore, consumer satisfaction is largely determined by the quality of their experience and communication with the service provider (Crosby, Evans, & Cowles, 1990). It is also influenced by the price and quality of the service, and by individual characteristics such as age and gender (Zeithaml, Bitter, & Gremler, 2006).

Moreover, satisfaction has positive effects on consumer loyalty (Gronholt, Martensen, & Kristensen, 2000; Homburg & Giering, 2001; Lee, Lee, & Feick, 2001). The relationship between satisfaction and loyalty was measured using a survey designed to assess consumer perceptions of trust, ethical standards, commitment to CSR, satisfaction, trust, and loyalty. The survey was then reviewed and revised by three professors of psychology and communication to confirm the overall adequacy and applicability of the questionnaire items to the context of this study. Table 1 provides the complete list of questionnaire items used in this study.

Two professional consulting agencies were hired to administer the survey over a period of two months. The agencies collected 931 valid responses from retail consumers in South Korea. The retail industry was selected because companies in this industry generally participate in CSR programs actively (Walsh & Bartikowski, 2013). Respondents completed the survey by answering questions on a 7-point Likert scale ranging from 1 = “strongly disagree” to 7 = “strongly agree.” The mean age of the respondents was 34.9 years and 54% were female.

4. Results

4.1. Descriptive statistics

Table 2 reports the descriptive statistics for the constructs in this study, indicating the respondents’ overall positive perceptions of the measured variables (the mean values were > 4.0).

Table 5 Measurement model fit indices.

<table>
<thead>
<tr>
<th>Fit index</th>
<th>Measurement model</th>
<th>Recommended level</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>NNFI</td>
<td>0.924</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>NFI</td>
<td>0.928</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>CFI</td>
<td>0.915</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>GFI</td>
<td>0.910</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>AGFI</td>
<td>0.902</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>TLI</td>
<td>0.965</td>
<td>&gt;0.900</td>
<td></td>
</tr>
<tr>
<td>χ²</td>
<td>4.793</td>
<td>&lt;5.000</td>
<td></td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.064</td>
<td>&lt;0.080</td>
<td></td>
</tr>
</tbody>
</table>
As summarized in Tables 5 and 6, all fit indices of the measurement and research models were satisfactory. The values of factor loadings, Cronbach’s alphas, composite validity, and average variance were calculated to test internal reliability and convergent validity. As reported in Table 3, all calculated values were above the recommended levels suggested in prior studies (Anderson & Gerbing, 1988; Hair, Black, Babin, & Anderson, 2006). Additionally, discriminant validity (Table 4) was obtained by confirming that the square roots of the average variance extracted were higher than the correlations between two specific constructs (Anderson & Gerbing, 1988; Hair et al., 2006).

4.3. Fit indices of the measurement and research models

This study conducted a confirmatory factor analysis and structural equation modeling (SEM) to assess the measurement and structural models’ overall fit indices, including the Incremental Fit Index (IFI), Non-Normed Fit Index (NNFI), Normed Fit Index (NFI), Comparative Fit Index (CFI), Goodness-of-Fit Index (GFI), Adjusted Goodness-of-Fit Index (AGFI), Tucker-Lewis Index (TLI), Chi-square with degree of freedom ($\chi^2/d.f.$), and Root Mean Square Error of Approximation (RMSEA). As summarized in Tables 5 and 6, all fit indices for both the measurement and research models were satisfactory.

4.4. Hypothesis tests

As illustrated in Fig. 1 and Table 7, the SEM results indicated that all hypotheses except H1 were supported. Retailers’ higher ethical standards led consumers to believe that the companies were committed to their CSR activities (H2, $\beta = 0.726, SE = 0.067, CR = 21.492, p < 0.001$). Retailers who were believed to be committed to their CSR activities induced greater consumer satisfaction (H3, $\beta = 0.437, SE = 0.095, CR = 6.131, p < 0.001$) and trust (H4, $\beta = 0.847, SE = 0.088, CR = 21.587, p < 0.001$). Additionally, trust led to greater consumer satisfaction (H5, $\beta = 0.300, SE = 0.097, CR = 4.077, p < 0.001$). Finally, trust (H6, $\beta = 0.494, SE = 0.102, CR = 11.924, p < 0.001$) and satisfaction (H7, $\beta = 0.354, SE = 0.062, CR = 9.258, p < 0.001$) had positive effects on consumer loyalty. Trust and satisfaction explained 60.4% of the variance in loyalty. Furthermore, the perceived level of commitment to CSR had the greatest standardized total effect (0.663).

5. Discussion

This study explores how the ethical standards of a company and the congruency between the consumers’ own values and the company’s CSR goals contribute to shaping consumer loyalty in the retail industry. From a theoretical perspective, the findings of this study validate the influential role of ethical standards in increasing consumer loyalty. Higher corporate ethical standards are found to lead consumers to believe that the company is committed to its CSR activities. When this belief is established, consumers become more satisfied and experience greater trust; as a result, they remain loyal to the company. Therefore, our findings provide an overall picture of the theoretical process by which the sequential relationship among ethical standards, commitment, trust, satisfaction, and loyalty is shaped.

The identification of satisfaction and trust as key mediating variables is another theoretical contribution of this study. Consistent with prior studies (e.g., Dean, 2002; DeWitt, Nguyen, & Marshall, 2008; Román, 2003) demonstrating the mediating role of consumer satisfaction and trust in promoting loyalty, our findings indicate that both variables are indeed significant determinants of consumer loyalty in the retail industry. This indicates that CSR is a multidimensional concept that influences various consumer perceptions, such as satisfaction, trust, and loyalty. As Stanaland et al. (2011) argue, loyalty and satisfaction might be more closely related to pragmatic reasons for CSR activities, while trust is viewed as a morality-based rationale. Therefore, researchers should consider these variables as key elements of successful CSR, and companies should communicate both practical and moral causes for such activities to consumers.

Contrary to H1, this study’s findings reveal that the degree to which consumers’ personal values match the company’s CSR activities has no significant effect on consumer perceptions of CSR, a finding similar to an earlier study (Lee et al., 2012) showing that the perceived fit between consumers’ values and companies’ CSR activities has the least significant effect compared to other notable determinants of CSR perceptions. Perhaps, this is because CSR consists of legal, ethical, and philanthropic responsibilities to society (Stanaland et al., 2011); thus, consumers might accept that the global goal of CSR activities has nobler values than their own personal ones, even if the two do not precisely match. This suggests that consumers may be willing to place less emphasis on their own personal values in favor of the greater good.

From a practical perspective, the findings of this study suggest guidelines for successfully implementing CSR plans and activities in the retail industry. More specifically, senior managers should acknowledge the benefit of corporate ethical standards and consumers’...
perceived commitment to CSR in promoting customer loyalty. Companies should attempt to draw consumer attention to their CSR plans and actively communicate with consumers to make it clear that they are committed to achieving their CSR goals. As prior studies (e.g., Kim & Park, 2010; Murphy, 2005; Valentine & Barnett, 2002) suggest, one effective way to do so is to explicitly clarify and promote their ethical standards through statements. Therefore, companies would benefit from providing consumers with direct, easy access to ethical statements and explaining the purpose and plans of their CSR activities.

Despite the useful implications of this study, the lack of generalizability limits the global applicability of the findings. As the survey was administered to retail consumers in South Korea, the implications of the findings may not apply in countries with different qualities and structures in their retail industries, or to other types of businesses and services. Additionally, variables such as corporate reputation, perceived risk, and individual differences among consumers (e.g., age, gender, and education) are known to influence how consumers make purchase decisions. Therefore, incorporating the potential moderating effects of these variables into the analysis could extend the explanatory power of the findings. Future studies should collect data from a more diverse sample and investigate the potential moderating effects of these unexplored variables to provide a more comprehensive framework predicting the role of CSR in business success.

Acknowledgement

The first two authors (Eunil Park and Ki Joon Kim) contributed equally to this study. This study was supported by the Dongguk University Research Fund of 2016.

Table 7

Summary of hypothesis tests (*p < 0.01).

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Standardized path coefficient SE</th>
<th>CR</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1. VR → CC</td>
<td>0.051</td>
<td>0.084</td>
<td>2.880</td>
</tr>
<tr>
<td>H2. ES → CC</td>
<td>0.726</td>
<td>0.067</td>
<td>21.492</td>
</tr>
<tr>
<td>H3. CC → ST</td>
<td>0.437</td>
<td>0.095</td>
<td>6.131</td>
</tr>
<tr>
<td>H4. CC → TR</td>
<td>0.847</td>
<td>0.088</td>
<td>21.587</td>
</tr>
<tr>
<td>H5. TR → ST</td>
<td>0.300</td>
<td>0.097</td>
<td>6.077</td>
</tr>
<tr>
<td>H6. TR → LT</td>
<td>0.404</td>
<td>0.102</td>
<td>11.924</td>
</tr>
<tr>
<td>H7. ST → LT</td>
<td>0.354</td>
<td>0.062</td>
<td>9.258</td>
</tr>
</tbody>
</table>

Notes: VR = value relevance, ES = ethical standard, CC = commitment to CSR, ST = satisfaction, TR = trust, LT = loyalty.


