

# Analyzing Relationship Between Corporate Social Responsibility and Customer Loyalty for Beverage Consumers: A Case Study

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## Abstract

Corporate Social Responsibility refers to an unpaid approach, emphasized to business and industrialist's analyst to achieve monetary outcomes in such a way that helps to the social welfares of the society and protect the natural environment. With increasing attention towards CSR, now managers consider it as a marketing tool. The objective of the study was to analyze the relationship between corporate social responsibility and customer loyalty. Primary research was conducted and data were collected through questionnaire. Sample size of 200 was considered; selected through convenient sampling approach. Key determinants were identified; Social Responsibility, Ethical Responsibility, Legal Responsibility and Environmental Responsibility through factor analysis. Logistic regression was used for examining the effects of socioeconomic factors and analyzing the relationship between CSR and customer loyalty. The results revealed that social responsibility, ethical responsibility, environmental responsibility, age, family income and employment status have significant impact on customer loyalty, while legal responsibility, gender and education had no significant impact on it. The study concluded that customer loyalty can be achieved with the application of CSR activities.

**Keywords:** Corporate Social Responsibility (CSR), Customer Loyalty, Stakeholders

## 1. Introduction

Stakeholders' term was first introduced in 1960's and it included all those who were affected by the corporations' actions; "corporate social responsibility" became a common term afterwards (Freeman, 2010) Corporate Social Responsibility (CSR) is explained as a business organization's configuration of principles of social responsibility, processes of social responsiveness and policies, programs, and observable outcomes as they relate to the firm's societal relationships (Wood, 1991). With globalization on the rise and shifts in technology focus has shifted towards the preservation of the environment; as the society consists of the real stakeholders associated with the organization, impact of CSR activities needs to be studied.

Recently CSR has gained popularity in academic, business and Non-Governmental Organizations. In general, CSR refers to a voluntary approach which stresses that business analyst and industrialists must achieve economic outcomes in a way that add to the social interests of the society and safeguard the natural environment (Sajjad and Eweje, 2014). Companies are heavily investing in CSR activities to achieve social legitimacy and competitiveness. It's also a strategy to save the company from unseen risks such as corporate scandals, environmental hazards, government regulations, and making better relationship with employees (Ali et al., 2010). Corporate social responsibility is an obligation to work for the development of society through malleable business activities and assistances of business resources (Kotler and Lee, 2008). Society has become more aware of what CSR is and the trends have started to change because of that. CSR has become a vital trait that needs to be addressed while planning a strategy and is one of the major attribute a firm needs to possess to survive in a highly competitive globalized marketplace. In 21st century where everything is going digital, firms are doing everything to express their responsibility programs to numerous investors including customers. Today, consumers relate themselves to a brand in the same way they relate their character with the CSR actions of the company.

CSR is a way of thinking in which company considers interest of all stakeholders within and outside the organization while devising the strategies. They also make sure the implementation and execution so that these

benefits can be maximized. Increased global appreciation of CSR perception can be credited to globalization and the realization that government alone can't solve all the social problems.

### **1.1 Corporate Social Responsibility and Customer Loyalty in Pakistan**

CSR is new to Pakistani market; however, interest and awareness is steadily growing in the country. CSR in Pakistan has been the focus of numerous conferences and has been under the spotlight of media attention (Sajjad and Eweje, 2014). In many companies the concept is misunderstood by taking only philanthropic activities, labor laws and workers' rights (Waheed, 2005). Currently reporting of CSR activities in nearly all annual reports published by listed companies plays an important role, as the more socially responsible stakeholders are very reactive to the CSR incorporated by the firms. However, owing to not so good economic conditions, corporations concentrating on small and middle size companies which commonly evade increasing cost pressures, hence they are unable to supply CSR by spending their assets on CSR and adding up to their costs while lowering their profit margins. Khan et al., (2012) pointed out CSR in Pakistan is done purely on voluntarily basis as there are no specific rules and regulations to ensure environmental and other activities. Moreover, National laws are often at odds with the labor standards, extensive legal uncertainty and a shortage of personnel at Pakistan's few labor courts make it complex for the people to take legal action to emphasize their rights. Another reason is majority of people are lacking an awareness of CSR. People's primary expectation in Pakistan is that companies should provide an adequate salary to cover the expenditure for living, to provide a fair healthcare facility and to match some other minute expenses. When it comes to the consumer expectations, it is very much limited and orbits around goods of exceptional value and replacement or restoration assurances in case the goods are found to be flawed. Hence commitment in plans to encounter extensive societal requirements is an insignificant hope in our country. In Pakistan, multinationals are taking actions regarding CSR, but local industries don't pay much attention. Some industries such as telecommunication where competition is high companies are using CSR as a competitive weapon (Ali et al., 2010). Hence it can be concluded that CSR in our country has a very low awareness and is at its initial stages and needs to be supported by organizations to create awareness and to create a healthy society to work in.

Customer loyalty is vital to firms because it lowers promotion costs, and contributes to profits through repeat and new business (Mulki and Jaramillo, 2011). Customer loyalty is considered an asset for the company. In general, it's defined as the customer desire to continue the business practices with a company over a time. Improving customer loyalty can cause positive returns such as improved sales, lower costs, and extra profit streams (Terrill et al., 2000). It is a fact that attracting new customer is costly then retaining old ones. Keeping in mind all these aspects companies consider customer retention as the most important task. By maintaining and creating more loyalty, a company tries to develop long lasting, equally advantageous relations with its consumers (Pan et al., 2012). A repetitive purchase is not loyalty; it's the belief of customer about a product or brand. Knowing about companies CSR related activities effects purchase intentions, and in turn manipulate loyalty and retention (Ali et al., 2010). Kotler and Armstrong (2008) explained that repetitive buying of a product is indication of loyalty towards a brand and CSR is considered a useful technique in this respect.

### **1.2 Pakistan Beverage Industry**

Beverage industry of Pakistan is one of the fastest growing industries. The industry has a diversified portfolio, which consists of soft drinks, juices, water, and energy drinks, etc. Currently there are about 170 units running across the country both upstream and downstream. By 2010 soft drink industry of Pakistan is expected to see enormous growth patterns as higher as 30.5%. The main players of the Pakistan's beverage industry are Coca-Cola, Pepsi, Gourmet and Nestle.

Although Pakistan is one of the fastest growing economies, but there are still problems that need to be addressed. Pakistan being an agricultural country; most of the earning is generated through agriculture sector. Rural areas of Pakistan are highly populated, where education, health, pure drinking water facility, etc. are not available, whereas urban areas are well equipped with these systems. To have these accommodations, people are migrating to urban areas.

With this increase in population in urban areas; business community has an opportunity to hire cheap labor force as people needs job to fulfil the necessities of life. In these circumstances, many big firms are grasping the profit margins from the local market without implementing the proper standers for product manufacturing; which in turn affects customer loyalty, in the global market. Because of this ignorance the exports of the nation have declined. All such issues can be avoided by creating awareness of CSR practices among the business community. These issues must be addressed at a fast pace, otherwise the issue may escalate to a bigger level (Andersson, et al. 2010).

Multinationals in Pakistan are following the CSR practice example of such companies are Nestle, Coca-Cola, and Pepsi. However, local firms such as Gourmet lack the commitment for CSR. Major firms of emerging countries are still lacking in the understanding of CSR notion. The companies need to focus on their ethical and

social performance to get into the market. This paper will inspect the relationship between corporate social responsibility and customer loyalty, and how companies can benefit from these practices. Moreover, it identified the problems and give recommendation for the future research.

## 2. Review of Literature

The concept of corporate social responsibility (CSR) originated in 1930-40's. In that era question was, do corporations have any such responsibilities, i.e. economic, social, legal, etc. (Carroll, 1979; Carroll, 1999). Parvez (2005) worked on quality of service along with customer satisfaction, switching cost and customer loyalty. Mohr et al., (2001) conducted a research to investigate that the consumers want the company to possess the vital attribute of CSR, which enhance a more positive image of that firm shifting consumers' buying behaviors in favor of the firm.

Balasubramanian et al., (2003) examined that in a computer-generated atmosphere level of trust play a central role in enhancing customer satisfaction where the traditional dimensions of customer satisfaction in terms of physical appearance of the facilities, employees, their responsiveness etc cannot be observed. Danneels (2003) studied cognitive and behavioral procedures used by a company to establish strong relationships with the consumers and the advantages or disadvantages of using these two processes.

McWilliams and Siegel (2001) stated that the CSR was demanded by the consumer and the stakeholders of the firm and that CSR is now a popular way to attain differentiation in the product market. Hess et al., (2002) conducted a research which identified some specific Corporate Social Initiatives which were associated to the business's fundamental values, are reactive to moral burdens, build on the business's fundamental capabilities and plain objective and mean of measurement.

Porter and Kramer (2007) suggested that corporations can utilizes their expertise, resources and insights to good use and can benefit the society as a whole. Idrees and Irfan (2011) conducted nowadays involvement in CSR practices is very important for the long run benefits of the company. In today's world stakeholders only support those companies which are financially strong and at the same time pursue their ethical responsibility for society.

Bashir, Hassan et al. (2012) The study explained that corporate social responsibilities positively influence the attitude of employees towards the organization that results in more job satisfaction and felt high level of belongingness, in turn, boost the productivity of the organization.

## 3. Materials and Methods

The study analyzed the relationship between corporate social responsibility and customer loyalty for beverage in (Faisalabad), the third largest city of Pakistan. The survey was conducted from 250 consumers, The respondents in the study sample were selected through convenience sampling. Questionnaire was used as a tool for data collection because this method assists to increase response rate (Saunders, Lewis et al. 2009). Both open ended and closed ended questions were included in the questionnaire. 5 point Likert scale was used to collect the categorical data ranged from 5 (strongly agree) to 1 (strongly disagree) For answering the research objectives and accomplish the aims of the study. Preliminary analyses of data were tested using descriptive statistics frequencies and cross tabulations (Fritsche, Porsgaard et al. 2008). Additionally, the factor influencing consumer preferences was tested through the factor analysis.

The impact of CSR on consumers' loyalty was investigated through logistic model. The logistic regression model or the logit model as it is often referred to, is a special case of a generalized linear model and analyzes models where the outcome is a nominal variable. Analysis for the logistic regression model assumes the outcome variable is a categorical variable. It is common practice to assume that the outcome variable, denoted as Y, is a dichotomous variable having either a success or failure as the outcome.

The equation of this logit model is shown as follows:

$$\text{Logit}(Y) = \text{natural log (odds)} = \ln(\pi/1 - \pi) = \alpha + \beta x;$$

## 4. Results and Discussions

Factor analysis is the tool that used to reduce the large amount of data into a fewer number of factors (Hair et al., 2009). Factor analysis, taking under consideration number of items, and analyze the way to group them under one pattern emerging from the data. In this way, fewer dimensions were recognized that enables the simplification.

According to Kaiser (1970) the KMO value should be greater than 0.6 for conducting the factor analysis and for this study (KMO) value was 0.717. Approximate Chi-Square comes out to be 3708.645 with 325 degree of freedom and the overall value of the Bartlett's test was significant at 5 percent confidence level. The values of both tests shows are in acceptable range, so the factor analysis can be conducted.

**Table 1. KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measures of Sampling Adequacy	0.717
Bartlett's Test of Sphericity	Approx. Chi-Square 3708.645
	Df 325
	Sig. .000

Hair et al., (2009) suggested that if the factor loading value is greater than 0.50 they are considered significant. For exploratory factor analysis, a total item of 23 were loaded, and all were considered significant, as all have the loading values that were greater than 0.

**Table 2. Summary of Factor Analysis**

Factors and Variables	Factor Loading Score	Cronbach Alpha
<b>Factor 1/ Social Responsibility</b>		0.884
Beverage manufacturers promote cultural activities for the local community.	.770	
Beverage manufacturers help in promoting artistic activities for the local community.	.764	
Beverage manufacturers promote charitable activities for the local community.	.718	
Beverage manufacturers promote education of young children by supporting educational institutes.	.713	
Beverage manufacturers assist in enhancing the quality of life in the local community.	.661	
Beverage manufacturers meet the expectations of societal norms.	.698	
<b>Factor 2/ Ethical Responsibility</b>		0.862
Beverage manufacturers are creating jobs for the society by providing opportunities on merit basis.	.501	
Beverage manufacturers meet the expectations of ethical norms	.744	
Beverage manufacturers recognize the need of new ethical/moral norms.	.829	
Beverage manufacturers respect the ethical/moral norms.	.808	
Beverage manufacturers prevent unethical behavior in order to achieve organizational goals.	.605	
Beverage manufacturers put in full efforts to be a good corporate citizen.	.655	
<b>Factor 3/ Legal Responsibility</b>		0.858
Beverage manufacturers operate business in a manner consistent with expectations of government and law.	.563	
Beverage manufactures obeys various federal, state, and local regulations.	.604	
Beverage manufacturers follow all the labor laws as mentioned by the government.	.780	
Beverage manufacturers prevent the use of child labor.	.728	
Beverage manufacturers meet minimal legal requirements related to goods and service.	.661	
Beverage manufacturers put in full efforts to prevent the illegal manufacturing of a product.	.780	
<b>Factor 4/ Environmental Responsibility</b>		0.854
Firms should go out of the way to helpful towards environment.	.810	
Firms should implement policies of green supply chain for distribution and procurement.	.863	
Production through friendly processes.	.859	
Beverage manufacturers should follow these practices.	.798	
Beverage manufacturers have a strong competitive position.	.506	

The binary logistic model is a technique used to analyze the relationship between predictors and the response variable. It also measures the extent to which a variable influences a relationship. In this case the relationship was analyzed between customer loyalty (response variable), dimension of corporate social responsibility (the predictors) and demographic variables. Regression coefficients for six variables were statistically significant, including three variables from the factor analysis and three from demographic variables. The factor (F2: Ethical Responsibility) and age has negative sign while other four variables has positive sign.

The results revealed that social responsibility (B= .953, p<0.05) had a positive and significant impact on

customer loyalty. Consumers were 2.595 times more likely to purchase a product of socially responsible firm. The ethical responsibility had a negative and significant impact on customer loyalty ( $B = -2.324, p < 0.01$ ). The results suggested that companies should pay more attention to their ethical responsibilities; the response of the consumers suggested that companies should be more transparent in their recruitment processes. Same way companies need to focus on this aspect of CSR. Consumers were 0.098 times more likely to purchase a product of ethically responsible firm. The impact of customer loyalty on environmental responsibility had a positive and highly significant impact ( $B = .988, p < 0.01$ ). The concept of green products and green supply chain is a little bit new but it's spreading fast. As the information technology is flourishing the people are becoming more and more aware about CSR activities. The results revealed that consumers prefer to buy products from a firm which is more environmental friendly and they are doing everything they can to protect the environment. These findings also supported by Lina Lidfors and Hugo van den Berg (2012). Consumers were 2.686 times more likely to purchase a product of environmentally responsible firm. The age had a significant impact to customer loyalty. These findings also supported by Lina Lidfors and Hugo van den Berg (2012). who suggested that age of the consumers' impact on customer loyalty as with growing age the way of thinking changes. The higher the family income more loyal the customers to be, as low income families will be more affected by the price of the product rather than higher income families. The employed person will be more confident and have the resources to do what they like, so they tend to be more loyal than those who were not employed.

**Table 2.:** Logistic Regression Results

	B	S.E.	Wald	df	Sig.	Exp(B)
Social Responsibility	.953	.426	5.001	1	.025**	2.595
Ethical Responsibility	-2.324	.548	17.996	1	.000***	.098
Legal Responsibility	.038	.322	.014	1	.907	1.038
Environmental Responsibility	.988	.357	7.654	1	.006***	2.686
Gender	1.032	.969	1.133	1	.287	2.806
Age	-1.617	.662	5.956	1	.015**	.199
Education	1.842	1.171	2.473	1	.116	6.310
Family Income	1.966	.908	4.690	1	.030**	7.144
Employment Status	2.207	1.122	3.872	1	.049**	9.091
Constant	-7.252	1.760	16.969	1	.000***	.001

Note: \*\*\*, \*\* and \* indicated coefficient are significant at the 0.01, 0.05 and 0.10 levels, respectively

## 5. Conclusions and Recommendations

### 5.1 Conclusion

Corporate social responsible behavior has gained a reasonable importance and became a relevant topic in marketing. Business theorists and practitioners of marketing are increasingly concerned with CSR and its implications for firms. The study answers CSR was often found to positively affect customer attitudes towards the firm and product in the form of company evaluations, purchasing behavior and loyalty. This study provided insight into the relationship of CSR activities from firms in the beverage industry on customer behavior. More specifically, the study has studied customer loyalty and focused on measuring these effects through four antecedents of corporate social responsibility. Key determinants were identified as Social Responsibility, Ethical Responsibility, Legal Responsibility and Environmental Responsibility. Logistic regression was used for examining the effects of socioeconomic factors and analyzing the relationship between CSR and customer loyalty. The results revealed that social responsibility, ethical responsibility, environmental responsibility, age, family income and employment status have significant impact on customer loyalty, while legal responsibility, gender and education had no significant impact on it. Social Responsibility, Ethical Responsibility and Environmental Responsibility being the antecedents of CSR, that showed Corporate Social Responsibility affects Customer Loyalty

### 5.2 Recommendations

This study has several important implications for company managers and business owners. It has identified CSR as an important concept when it comes to developing customer loyalty and could help provide some guidance as to the more important aspects of CSR, there is the intrinsically sparked need (although often at the same time stimulated by the consumers' demand) to do the right thing. Being aware of and taking responsibility for protecting and improving human (working) rights, sustainable production and participating in charitable activities are primarily ethical business decisions. The more socially responsible the company the larger percentage effect CSR has on customer loyalty. The engagement in CSR activities is valuable for firms in the Beverage industry of Faisalabad. However, consumer awareness on CSR activities of the firms is generally low. Considering the increase in attention and interest brought to CSR, there will most likely be a future interest in the topic. This is a strong indicator for companies to continue their engagement in CSR activities. Thus, if and when

CSR becomes a more prominent element of consumers' consciousness of the marketplace, a CSR positioning might turn.

### 5.3 Limitations and Future Research Scope

The results from this study are only to be taken into the context of the beverage market in Pakistan. Since the findings may differ depending on in which industry and country the study is done, a suggestion for future research is to perform the same study in different industries e.g. textile, electronics, automobiles and electric industry to validate the findings from this study. Further research should be conducted into perceptions of stakeholders in terms of both internal and external CSR activities. The study can be conducted into the relationship between CSR and philanthropy, which is concerned with donating to social causes. Philanthropy could be developed as another component of a CSR scale, specifically relating to money donations, to examine the impact on customer loyalty.

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