Customer Perceptions of Corporate Social Responsibility of Service Firms:

Impact on Customer Attitudes and Behavioral Intentions

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Abstract

Using an experimental research design, this study investigated the influence of customer perceptions of corporate social responsibility (CSR) on customer attitudes (loyalty, trust and commitment) and behavioral intentions (patronage intentions, switching intentions and word of mouth). Focusing in the hospitality industry, this study examined whether customer attitudes and behavioral intentions are affected only by the services provided to them by the service companies (service quality), or are also affected by the services provided by the service companies to its own employees, suppliers or to the society (CSR). The present study is based on the understanding that customers have already developed attitudes (favorable/unfavorable) towards service organizations based on past experiences of service quality (service quality-driven customer attitudes - SQA). First, this study investigated if customer perceptions of favorable/unfavorable CSR activities alter/affect the existing SQA. Second, the study investigated the influence of customer perceptions of CSR on customer attitudes and behavioral intentions. Third, the moderating effect of customer perceptions of CSR on the relationship between SQA and customer attitudes and behavioral intentions was investigated. The results illustrated that customer perceptions of CSR has a positive and significant influence on customer attitudes and behavioral intentions. Additionally, results indicated that perceptions of CSR significantly affected existing SQA. A three-way interaction effect of CSR, SQA, and gender

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was also found in the study. The implications of the findings and directions for future research are discussed.

1. Introduction

Scholars and practitioners are increasingly focusing their attention on Corporate Social Responsibility (CSR), because of its significant impact on organization's economic and financial performance (Luo & Bhattacharya, 2008). Companies are increasingly incorporating social responsibility as an important aspect of corporate management (Swaen & Chumpitaz, 2008). Corporate social responsibility refers to the "obligations that companies have to integrate environmental and social parameters into their *modus operandi* and long-term development policies" (Swaen & Chumpitaz, 2008, p. 7; Persais, 2002). Increasingly, society expects businesses to have an obligation to the society in which they are located, to the people they employ, and their customers, beyond their traditional bottom-line and narrow shareholder concerns (Sen & Bhattacharya, 2001; Carroll, 1979; Jones, 1980; Maignan, Ferrell, & Hult, 1999)).

CSR became a critical issue for organizations after financial scandals (e.g., Enron affair), social problems (e.g., poor working conditions in developing countries), and environmental disasters (e.g., Prestige shipwreck) which increased pressure on corporations through increased media coverage and increased transparency requirements (Swaen & Chumpitaz, 2008). Organizations are increasingly investing resources to demonstrate their commitment, ethical outlook, and responsible behavior in this area (Decock-Good, 2000; Martinet & Reynaud, 2000). Researchers have established that CSR programs indeed have a strong influence on consumers' attitudes and behaviors towards products and companies (Berens, van Riel, & van Bruggen, 2005; Sen & Bhattacharya, 2001). Extant research has also focused on the influence of CSR on brand image and consumer trust (Wessels, 2003; Kennedy, Ferrell, & LeClair, 2001), brand loyalty, firm's economic performance, and corporate success (Bibb & Kourdi, 2004; Reichheld & Schefter, 2000). Prior studies have also reported that CSR activities help to build company reputation, which also indicates company's involvement in providing quality services/products (Swaen & Chumpitaz, 2008). Customers often use corporate reputation to assess products, with positive reputation resulting in higher perceptions of product/service quality (Olson & Haddock, 1971; Shapiro, 1983). Researchers and practitioners have understood the value of company's socially responsible actions and its impact on driving consumers' purchasing decisions along with the traditional criteria of price, quality and service (Swaen & Chumpitaz, 2008).

Extant research has provided substantial evidence that customer perception of corporate social responsibility influences customer responses to products (Brown & Dacin, 1997), attitudes towards products (Berens, van Riel & van Bruggen, 2005), identification with a particular company (Sen & Bhattacharya, 2001), consumers' behavioral intentions and actual behaviors (switching behavior; consumer defection; repeat patronage and recommendation intentions) (Vlachos et al., 2009). However, scholars have called for more empirical work in this area as most studies lack empirical support, or findings are mixed (Vlachos et al., 2009). Therefore, there is a need to further test these proposed relationships.

CSR programs were initiated to make corporations realize their societal responsibilities. Although sincere efforts have been made by various organizations to achieve such goals, majority of corporations execute CSR activities for various benefits such as: improving corporate image, building relationships with governments and communities, meeting growing expectations of customers and social groups, improving morale and retention rates of employees, and finally increasing firm profitability (Henderson, 2007; Jones et al., 2006; Lee & Park, 2009). As corporations began using CSR as a marketing tool, research began moving in that direction. Prior studies have focused on cause-related marketing, where the goal is to improve corporate performance and simultaneously help worthy causes (Varadarajan & Menon, 1988). Corporations have often been charged with engaging in CSR not only to support worthy causes but as a promotion mechanism to enhance their company/brand image to attract customers (Ellen et al., 2006). Recent research has focused on customer perceptions of corporate motives and its influence on consumer evaluations of the product/company (Vlachos et al., 2009). Therefore, prior studies have mostly investigated the influence of organizations' engagement in CSR initiatives on consumer attitudes and behavioral intentions, perceived quality of products/services, and firm value and performance (Lee & Park, 2009; Swaen & Chumpitaz, 2008).

While considerable amount of research has been done examining CSR's impact on consumer attitudes and behaviors, several answers remain unanswered. First, this study does not focus on company initiatives of CSR (e.g., charity, protecting environment) and its influence on consumer attitudes and behavioral intentions. This study examines the influence of third party (e.g., media, internet, human rights groups, labor protection activists) reporting of company's engagement in unacceptable social behaviors (e.g., unfair labor practices such as workers paid below minimum wage) or acceptable social behaviors (e.g., fair labor practices such as good working conditions for employees; high wages) on consumer attitudes and behavioral intentions. Taking a consumer perspective, this study examines how consumers react and make decisions based on their perceptions of service quality and CSR. Second, consumer attitudes (such as commitment, trust, and loyalty) towards products/services develop over time, as a result of several service exchanges between customers and service firms and perceived quality of the products/service offered. Therefore, this study investigates if customer perceptions of CSR based on recent reporting of company's socially responsible/irresponsible activities affect service quality-driven customer attitudes (SQA). In other words, the study examines if a company's engagement in socially irresponsible behaviors lower existing customer loyalty, trust and commitment towards the company.

There is contrasting evidence in the literature about the moderating effects of CSR versus moderating effects of perceived service quality. One perspective is that perceived service quality moderates the relationship between customer perceptions of the motives of company engagement in CSR activities and customer attitudes and behavioral intentions. Scholars who support this perspective have argued that customers tend to ignore companies' inappropriate social behaviors (egoistic-driven: companies' engagement in CSR only to promote the company and not for the support for the actual cause) when customers perceive the service quality to be high (Luo & Bhattacharya, 2006). The second perspective, supported by other scholars is the moderating effect of CSR on the relationship between perceived quality and customer attitudes and behavioral intentions (Berens et al., 2007). Scholars who support this perspective have proposed that the influence of perceived service quality on customer attitudes and behavioral intentions will be affected upon favorable or unfavorable CSR activities of companies. Contrasting

perspectives and mixed results call for more detailed investigation of the interaction effects of perceptions of service quality and CSR on customer attitudes and behavioral intentions.

Most CSR related studies has been done in product-based industry, prompting investigation in service-based industries. Although few initiatives have been taken in service context, there is no explicit argument provided why such relationships might be different and/or important in a service-based industry compared to a product-based industry. The current study makes an attempt to fill this gap in the literature.

One of the critical reasons for the initiation of the CSR programs was to keep a check on multinational companies from exploiting human resources in developing nations. "CSR is an over-arching strategic concept that is rooted in globalization; the desire to control multinational companies' activities; and the international community's self-imposed goal of sustainable development. It brings into the business arena a number of previously distinct themes: human rights, labor standards, environmental protection and sustainable development, consumer protection and more recently, the fight against corruption and corporate governance" (De Cannart D'Hamale et al., p. XV). However, CSR research has mostly ignored the perspective of globalization. The present study makes a contribution to the literature by incorporating this perspective.

Purpose

The current study makes several important contributions to the CSR and the services marketing and management literature. First, this study examines the impact of customer perceptions of corporate social responsibility on customer attitudes and behavioral intentions. Second, this study focuses on hospitality/tourism industry, which lacks much research initiative in this area. Third, This study focuses on how customer perceptions of CSR (favorable or unfavorable) affect existing service quality-driven customer attitudes (SQA). Moreover, taking a global approach, this study investigates if U.S. service firms' engagement in appropriate/inappropriate social behaviors in foreign territories, affect attitudes and behavioral intentions of U.S. customers.

Research Questions

Do unfavorable perceptions of CSR lower customers' existing attitudes towards the organization and its products/services? Similarly, do favorable perceptions of CSR increase customers' existing attitudes towards the organization and its products/services? Therefore, the fundamental research question is: do customer perceptions of CSR affect the existing customer attitudes (developed over the years because of customer perceptions of service quality) towards the organization and its products/services? Do these newly developed customer attitudes affect customers' behavioral intentions?

2. Literature Review
Service Industry and Relationships

Prior studies mostly focused on product-based (tangible goods) industry such as sportswear, cosmetics, and other products (Sen et al., 2006). This study investigates the relationships in a service industry context which has been mostly ignored (Kang, Lee, & Huh, 2010). Investigating the relationships between CSR and customer attitudes and behaviors will be particularly interesting in a service industry context. Customer evaluations are mostly based on the quality of the product (tangible goods such as shoes or cosmetics) in a product-based industry

context. However, in a service industry setting, consumer evaluations of service quality are based on both tangibles (appearance of physical activities, equipment, personnel, and communications material) and intangibles such as reliability (ability to perform the promised service dependable and accurately); responsiveness (willingness to help customers and provide prompt service); assurance (competence of the system and its credibility in providing courteous and secure service) and empathy (approachability, ease of access and effort taken to understand customer's needs) (Parasuraman et al., 1985; Parasuraman et al., 1988; Oliver, 1980; Nadiri & Hussain, 2005). These requirements made scholars focus extensively on the dyadic relationship/interaction between service employees and customers (Bitner, 1990; Namasivayam, 2004). The role of service employees in a service encounter is crucial (Namasivayam, 2004). Customers often consider the services provided by the employee as service provided by the company. Relationships with company and customers are developed often through the development of relationships between the service employee and the customer (Gutek, 1999). Because of such close encounters and relationships between customers and service employees in service industry, it is more likely that customers will relate with service employees more strongly. These personal experiences based on past experiences are likely to develop 'sympathy' towards service employees (Smith, 1976). Moreover, personal bond or ongoing face-to-face relationship strengthens the likelihood that 'sympathy' will influence customers' transactional behavior (McIntyre & Ramstad, 2004). Therefore, service firm's engagement in ethical/unethical activities towards its employees might have a greater influence on customer's attitudes and behavioral intentions towards companies or its products/services.

Moreover, in product based industry where customers may not have interaction with other stakeholders (e.g., employees who manufactured the product), as customers are mere consumers of the manufactured products. This increases the 'social distance' between the producers (workers) and the customers (McIntyre & Ramstad, 2004). Moreover, this social distance is larger as most often either the workers work for a company making the products (so customers mostly relate with the company (retailer) and not with workers), or workers work for another company where the job was outsourced (McIntyre & Ramstad, 2004). Therefore, all transactions have conflicts of interest at their core, as customers desire high quality and low price, while producers (workers) desire high wages and good working conditions (Commons, 1909).

However, in service industry, customers have direct contact with other stakeholders (e.g., service employees), as customers and service employees collaborate to co-create the desired service product (Vargo & Lusch, 2004). The conflicts of interest in service transactions between service employees and customers are comparatively lower; as the social gap between producers and customers is minimal (as both service employees and customers work together to co-produce the service product). Therefore, in services industry, it is more likely that customers relate strongly to other stakeholders (e.g., employees) and be more concerned about their welfare.

Globalization

Corporations are going global as part of a competitive requirement to invest globally to assess markets, technology and talent. Foreign direct investment (FDI) is clear indicator of the trend toward globalization. FDI includes corporate activities such as businesses building plants or subsidiaries in foreign countries, and buying controlling stakes or shares in foreign companies. United States has the highest FDI activity among all industrialized economies (Blonigen, 2006).

Direct investments outside the country have been made by U.S. firms in almost every sector, such as automobiles, apparel, electronics, leisure and hospitality and others. For example, Hyatt