

Effect of Corporate Social Discretionary Responsibility on Customer Loyalty: A Survey of Telecommunication Firms in Uasin Gishu County, Kenya

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Abstract

Corporate Social Responsibility (CSR) has been used by many companies to gain public confidence through providing essential commodities of some high value to a customer, particular in telecommunication industry where only one mobile operator has dominated the market share for the last one decade. However, understanding how different CSR initiatives affect customer loyalty is still limited especially in developing countries. The study objective was to determine the effect of discretionary responsibility on customer loyalty. Carroll model and Stakeholder theory were used to explaining the study. The study employed an explanatory research design. The study targeted all customers of telecommunication companies in Uasin Gishu County. Stratified sampling was used to group the population while the systematic sampling technique was used to obtain 400 customers. A structured questionnaire was used for data collection. The reliability of the questionnaire was checked using Cronbach Alpha test. Data was purely quantitative. Data collected were coded and analyzed using both descriptive and inferential statistics. The study found that CSR initiatives positively impact on customer loyalty. The study found that discretionary responsibilities positively affect customer loyalty. It was therefore affirmed that mobile firms providing telecommunication services with a higher level of CSR discretionary responsibilities are likely to enhance customer loyalty towards its products. It's therefore important for telecommunication firms to donate to charities, to the society, be involved in a project(s) with the local community and return a portion of revenues to the community and firm staff members to be involved in charity volunteer work on behalf of the firm. Telecommunication firms should engage in CSR in order to create a positive attitude on their customers to enhance loyalty.

Keywords: Corporate Social Responsibility, Discretionary responsibility, Customer loyalty, and Telecommunication firms

Introduction

Corporate Social Responsibility (CSR) has emerged as a high-profile notion that has strategic importance to many companies. Companies are taking direct and visible steps to communicate their CSR initiatives to consumers (Luo and Bhattacharya, 2006). Bhattacharya and Sen (2004) argue that many marketing studies have found that social responsibility programs have a significant influence on several customer-related outcomes, thus a company with good reputation on CSR creates a favorable context that positively boosts consumers' evaluations of and attitude toward the firm (Gl'rrhan- Canli and Batra, 2004).

CSR initiatives constitute a key element of corporate identity that can induce customers to identify for instance; customers through CSR can develop a sense of connection with the company. CSR initiatives can create benefits for companies by increasing consumers' identification with the corporation support for the company (Drumwright, and Bridgette, 2004). Customers are more likely to be satisfied with a firm's offerings to the community (Bhattacharya and Sen 2003). In addition, engaging in CSR may allow firms to understand their generalized customers better and thus improve their customer-specific knowledge (Sen and Bhattacharya 2001). Firms with satisfied customers tend to enjoy greater customer loyalty, positive word of mouth and customer's willingness to pay premium prices, all of which can increase a firm's market value as well as achieving higher levels of cash flows (Bolton and Drew, 1991; Szymanski and Henard, 2001; Homburg *et al.*, 2005).

CSR particularly the philanthropic responsibility such as building schools hospitals contributing to various sporting activities and so on is constantly reducing owners' earnings on capital (Sen and Bhattacharya, 2001; Sen and Bhattacharya, 2006; Pavlos A Vlachos, 2011). This has created some conflicts to the various stakeholders in a given firm seeking for justifications of such acts by management. Sometimes those acts may be raising some questions on the part of consumers on how the firm is getting such finance; they may be of the view that the firm is exploiting them by charging high prices for its products and/or services (Progressive Grocer, 2008). Proponents of CSR claim that it is to the best interest for businesses to engage in the various forms of CSR. When the firms engage in these acts then the business will benefit from increased customer loyalty and retention.

Telecommunication industries have helped in building schools and hospitals and sponsoring sporting activities in order to effectively position themselves. Customers who perceive an organization as being socially responsible in terms of prices of its commodity, treatment of its staff, contributing to the society, profitable and also providing better services will be more loyal to that company. The loyalty of the customer is considered a function of customer satisfaction, thus loyal customers spend a lot in consuming the product and services of the company and also by recommending others about the product/ services of a company (Bowen and Chen, 2001; Fecikova, 2004)

LITERATURE REVIEW

Concept of Customer Loyalty

Customer loyalty refers to a deeply held commitment to make a repeat purchase or patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior (Oliver, 1999). Also, it can be viewed as a function of satisfaction, switching barriers and voice. Loyal customers may not be always satisfied, but satisfied customers are apt to be loyal (Yim *et al.*, 2008). Customer loyalty can be viewed as the expectation for a customer to make a relationship with the firm by continually making a purchase in the future (Alrubaiee and Alnazer, 2010). Customers are in a constant way of searching for some benefit from the company, hence CSR programs have positive effects on customers purchase (Maignan and Ferrell, 2004; Farooque *et al.*, 2009). Increased customer loyalty is one of the most common outcomes expected from relationship marketing efforts (Palmatier *et al.*, 2006). Most research has related customer loyalty with brand royalty but in this stud, we shall look at service loyalty since we are dealing with the telecommunication sector which is a service industry.

Service loyalty refers the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises. (Caruana, 2002). In this study, loyalty is perceived as a continuous process of consuming and/or the buying of the products/services of a given firm over an unpredictable future period.

The link between CSR and Customer Loyalty

Researchers have shown CSR-related reactions to a company are determined not only by its actions in this domain but also by those of its stakeholder groups (for instance customers), which are typically beyond the company's control (Bhattacharya and Sen, 2003; Brown *et al.*, 2006; Pramanik *et al.*, 2007). CSR move beyond the often rarefied controlled empirical contexts to paint a more externally valid picture of the forces determining consumer reactions to CSR initiatives (Pramanik *et al.*, 2007). CSR actions are likely to be enacted. In other words, much as the competitive context impacts the marketing mix, a company, in formulating its CSR strategy, needs to understand how consumers perceive and react to its CSR actions not in isolation but in the context of different CSR actions, if any, taken by its competitors (Bhattacharya & Sen, 2004). Onlaor and

Rotchanakitumnuai (2010) argue that organization should realize and invest in corporate social responsibility scheme in order to enhance their relationships with customers by initiating robust corporate strategy particularly in social concerns such as setting a reasonable price, improving their services, developing innovation, and implementing a privacy policy. Moreover, the organization should communicate CSR ways to the general public. Several marketing studies have reported that CSR behaviors can positively affect consumer attitudes towards the firm and its offerings (Bhattacharya and Sen, 2003; Lichtenstein *et al.*, 2004; Luo and Bhattacharya, 2006).

Discretionary Responsibilities and Customer Loyalty

Firm's discretionary responsibilities entail voluntary social involvement, including activities such as philanthropic contributions. These activities are purely voluntary, guided only by business' desire to engage in social activities that are not mandated, not required by law and not generally expected of business. They include such things as providing a daycare centre for working mothers and providing charitable donations (Maignan and Ferrell, 2000). The competing environment has necessitated the company not only continue in provision of better products but to go an extra mile in acting in a philanthropic manner in order to woo customers. This entails the building of schools, hospitals, engaging in societal projects and engagement in sporting activities. These act of contributing more than the legal expectation to the society has increased the transactional effect by customer continually in demand for the products and/or services of the company (Lichtenstein *et al.*, 2004). Philanthropic contributions are associated with creating psychological perceptions in the mind of the customers by viewing the company in a positive manner (Sen and Bhattacharya, 2001). This act of the company makes the customer to be attached psychologically with the company and its products and/or services.

For managers to act responsibly they may have created that culture through involvement in some culture. This culture involves the company/ its managers joining a given association which prompts its members to act in a socially responsible manner by creating a proper set of incentives for such behavior (Galaskiewicz, 1991). When managers or corporations belong to professional associations dedicated to charitable giving, it will encourage these corporations/managers to engage in philanthropy giving. Membership in such organizations acts as a driving force for managers or corporations to act in a more ethical manner. The seminars provided by this memberships instill in members the virtues and benefits of corporate giving. This is strengthened by the peer pressure accruing from how others are contributing to the society in other localities.

MATERIALS AND METHODS

The study adopted an explanatory research design. Explanatory research focuses on why questions and also causal relationships design. Answering the 'why' questions involves developing causal explanations. Causal explanations argue that phenomenon Y (customer loyalty) is affected by factor X (CSR Discretionary initiative). Some causal explanations will be simple while others will be more complex (De Vaus, 2001). The population of the study comprised three major telecommunication firms in Uasin Gishu County namely; Safaricom, Airtel, and Orange. As at 15th January 2013, there were estimated 850,000 mobile subscribers in Uasin Gishu County comprising of 498,222 Safaricom subscribers, 207,517 Airtel subscribers and 141,600 Orange subscribers (CCK database, 2013). From the target population of 847,339, Taro Yamane (1973) sample size formula was used to calculate a sample size of 400 customers as shown below;

$$n = \frac{N}{1 + Ne^2}$$

Where; n = Sample size, N = Population size and e = the error of Sampling

This study allowed the error of sampling of 0.05. Thus, the sample size will be as follows:

The study used a stratified sampling technique. Therefore, customers were stratified into three strata's where the sample size was distributed according to Neyman (1934) allocation formula. The purpose of the method is to

maximize survey precision, given a fixed sample size. With Neyman allocation, the best sample size for stratum h would be:

$$n_h = \left(\frac{N_h}{N}\right)n$$

Where; n_h - The sample size for stratum h, n - Total sample size, N_h -The population size for stratum h, and N - The total population

Questionnaires were used to collect the relevant quantitative data, with crobach alpha being used to determine the reliability of the scales used. The data collected was analyzed using descriptive statistical techniques such as frequencies, mean, and standard deviation and presented using tables. The researcher also used inferential statistics (t-test) and employed a Pearson correlation to show the relationships that exist between the variables. Multiple regressions analysis was also performed to show the causal effect.

RESULTS AND DISCUSSION

Discretionary Responsibilities

Discretionary Responsibilities of mobile service provider were inquired from the respondents. From the study results in table 1, the firm was found to donate charities to the society (mean, 3.55) and was actively involved in the local communities' project (mean = 3.49). Also, the firm acted like a good citizen in all matters beyond law and ethical rules and returned a portion of revenues to the community. Not only was the firm involved but its staff was involved in charity volunteer work on behalf of the firm (mean = 3.41). In general the mobile services provider had moderate level of discretionary responsibilities (mean = 3.3175 > standard deviation = 0.79656). Responses on discretionary responsibilities were normally distributed as evidence skewness -0.276 and kurtosis of -0.378

Table 1 Discretionary Responsibilities

	Mean	Std. Deviation	Skewness	Kurtosis
Firm donate to charities to the society	3.55	1.206	-0.65	-0.569
The firm is actively involved in a project(s) with the local community	3.49	1.144	-0.711	-0.319
The firm acts as a good citizen in all matters beyond law and ethical rules. Return a portion of revenues to the community	3.43	1.165	-0.492	-0.548
Firm staff members are involved in charity volunteer work on behalf of the firm	3.41	1.052	-0.521	-0.194
Discretionary Responsibilities	3.3175	0.79656	-0.276	-0.378

Survey data (2013)

Customer Loyalty

In Table 2 customer loyalty toward mobile service, firms were established. Results indicated that customers could not switch to another network because the one they were operating on was up to their standard (mean = 3.96). They were willing to keep on using the firm services/products (mean = 3.87) and preferred their service provider than any other firm (mean = 3.77). They also revealed that they could recommend the firm products/services to other people (mean = 3.72). In general, customers were loyal to their mobile services provider as evidence of mean, 3.837, standard deviation 0.66339, skewness -0.507 and kurtosis of 0.308.

Table 2 Customer Loyalty

	Mean	Std. Deviation	Skewness	Kurtosis
I Cannot Switch To Another Network because The One Am Operating In Is Up To My Standard.	3.96	1.162	-1.201	0.714
Am Willing To Keep On Using The Firm Services/Products	3.87	0.947	-0.9	0.796
I Prefer My Service Provider than any other Firm	3.77	0.996	-0.675	0.076
I Can Recommend the Firm Products/ Services to other People	3.72	1.041	-0.891	0.34
Customer	3.837	0.66339	-0.507	0.308

Survey data (2013)

Correlation Statistics

Pearson Correlations results showed that discretionary responsibilities were highly positively and significantly correlated to customer loyalty ($r=0.682$, $\rho<0.05$). Thus discretionary responsibilities had 68.2% positive relationship with customer loyalty. Findings provided enough evidence to suggest that there was a linear relationship between the discretionary responsibilities and customer loyalty.

Multiple Regression Results to test the hypothesis

The regression results for the study on the multiple regression model had a coefficient of determination (R^2) of about 0.622; this means discretionary responsibilities explain 62.2% variations of customer loyalty in mobile services firms. Durbin–Watson statistic is substantially less than 2, there is evidence of positive serial correlation, although positive serial correlation does not affect the consistency of the estimated regression coefficients, it does affect the ability to conduct valid statistical tests, as such it can be concluded that the significant statistics are valid. The test further reveals that the F-value of 139.914 with a p value of 0.00 significant at 5% indicate that the overall regression model is significant hence, discretionary responsibility is significant in predicting the customer loyalty.

Test of Hypotheses

The study Hypothesis (H_0) of the study stipulates that discretionary responsibility has no significant effect on customer loyalty. As evidence from the study results ($\beta_2 =0.279$, $\rho<0.05$) hypothesis 2 failed to imply discretionary responsibility has a positive significant effect on customer loyalty in mobile service firms. This showed that the more discretionary responsibility level in mobile service firm the higher the customer loyalty as evidence of t ratio of 5.802 which also shows that among the four CSR components discretionary responsibilities had the highest effect.

Table 3 Multiple Regression Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	0.844	0.135		6.271	0.000		
Discretionary Responsibilities	0.233	0.04	0.279	5.802	0.000	0.479	2.088
R Square		0.622					
Adjusted R Square		0.618					
F		139.914					
Sig.		.000					
Durbin-Watson		1.336					

a Dependent Variable: Customer loyalty

Survey data (2013)

Summary of the Findings

Discretionary responsibility was shown to positively effect on customer loyalty in mobile service firms ($\beta_2 = 0.279$), this implied that increasing firm engagement to the society will induce customer loyalty to the mobile service firm, findings supported by Barone *et al.*, (2000) who established that consumers are willing to actively support companies committed to donating charities to the society (Maignan and Ferrell, 2004). In addition, study findings are consistency with Bhattacharya (2001) suggestions that a company's efforts in CSR and customer satisfaction multiple CSR domains (corporate giving, community involvement, and its position on issues involving women, ethnic minorities, and disabled minorities) had a direct effect on the attractiveness of the company's products in addition to a positive effect on company evaluations by customers. However, a comparison of the effectiveness of each of the initiatives was not conducted. Further, Margolis *et al.*, (2007) report that the association between CSR and customer loyalty is strongest for the specific cases of charitable contributions, environmental performance, and revealed misdeeds (for example public announcements of actions that indicate socially irresponsible behavior).

Conclusions

Approaching CSR from the consumer point of view provide rationales for the existence of a market for CSR products. In this view, the two main ingredients that may sustain the production of CSR goods are consumer social preferences and information disclosure of CSR characteristics of products. Regarding this, the study contributes to the knowledge on the impact of CSR in the mobile services firms on consumer loyalty, which has only seldom been addressed in previous research nor analyzed in such a comprehensive manner, covering all four domains of CSR activities. The study CSR's impact on consumers' loyalty is in line with the research that generally suggests that the influence on companies' market performance is positive in terms of affecting customer loyalty and purchasing behavior. The study reconfirms this for the telecommunication industry. Findings provided enough evidence that discretionary CSR is more important as a direct factor of influence on customer loyalty.

Policy Recommendation

Customer loyalty has been shown to be mostly and significantly boosted by discretionary responsibilities of firms thus, it is important for firms to engage in discretionary responsibilities. Customer perception about the firm contribution to the society and employee health and safety principles will have an impact on customer satisfaction which in turn leads to customer loyalty.

Suggestion for Further Studies

This research was based on telecommunication firms' contexts, therefore, it provides room for exploration on other sectors of the economy to see whether a positive relationship exist between CSR and customer loyalty hence this study needs to be broadened. Future research also should extend its theoretical framework and take other major variables into the study such as legal requirement beyond customer laws to fulfill legal dimension in order to enhance CSR awareness of organization which in turn retain customer loyalty.

The issue of switching cost should be also analysed in this context. Lastly, future research should be based on the comparison of how different telecommunication/other firms are using CSR as a basis of gaining customer loyalty. These might reveal on the various strategies that telecommunication and/or other firms are using to create a more loyal customer.

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