

## Ethical Relation of Corporate Social Responsibility (CSR) and Customer Loyalty of Selected Food and Beverage Companies in Lagos State, Nigeria

<sup>1</sup>Adeoye, Itunuoluwa. A,

<sup>2</sup>Egwuonwu, T. K,

<sup>3</sup>Kabouh, Margret &

<sup>4</sup>Chieze, Anthony I.

<sup>1,2,3&4</sup>Department of Business  
Administration and Marketing,  
Babcock University, Ilisan-  
Remo, Ogun State

### Abstract

Organisations are guided by norms or values that portray their corporate image which enhance customers' loyalty. However, it has been observed that most organizations pay little or no attention to their ethical values and practices thereby exposing themselves to the risk of not being patronized by potential customers. However, ethics governs and shapes the society as it has become a major practice for business and organisations in their relationship to their society. This study examined the effect of ethical relation of corporate social responsibility on customer loyalty. Survey research design was adopted for the study. The population of the study consists of management staff (at the strategic and operational management level) from two food and beverage companies in Lagos state giving a population of 1,987. Taro Yamane formula was used to arrive at a sample size of 433. A structured questionnaire was administered which gave a response rate of 91.7%. The data gathered was analyzed through descriptive and inferential analysis. The result indicated that ethical relation has a significant effect on customer loyalty ( $R^2 = 0.495$ ,  $p = 0.000 < 0.05$ ). This study concluded that ethical relation plays a significant role in determining the performance of food and beverage companies. This study recommended that food and beverage companies and the manufacturing industry in general should regularly engage in ethical practices which will lead to their overall performance in terms of customer loyalty hence ending African dependency. In addition they should ensure that ethical relation of corporate social responsibility should be fully integrated and implemented into the organizations' corporate strategy.

### Keywords:

Corporate social responsibility,  
Ethical relation,  
Customer loyalty,  
Organizational performance,  
Values.

Corresponding Author:  
Kabouh, Margret

### **Background to the Study**

In today's extremely competitive environment, financial survival and business sustainability is challenged to achieving customer loyalty. Organizations are now concerned about doing the unusual apart from diversification, differentiation and profit maximization hence the concept of corporate social responsibility is being embraced by organizations. Corporate social responsibility (CSR) is a concept about how organization brings values and needs of their stakeholders that is their investors, customers, employees, suppliers, and local communities into their business strategies (Sarmad, Zahid, Wahid & Irshad, 2015). It is an obligation a company has over its stakeholders. More succinctly, it is all about the concern of the society as a whole as it affects their customer's loyalty. CSR is concerned about community relationship, environmental problems, business ethics and issues of human rights, employees' welfare programs such as education and training programs along with safety measures of the workforce at workplaces. CSR is defined as an obligation of industry to add to sustainable economic growth, aims at creating good values of livelihood, at the same time safeguarding the success and economic development of the corporation (Baxi & Ajith, 2005).

The issue of CSR has been captioned with diverse names by various organizations as it relates to them such as strategic charity, company citizenship and social duty (Rangan, Chase & Karim, 2012). Corporate social responsibility varies with company characteristics including manager's values. Corporate social responsibility (CSR) is increasingly being recognized by government and the public due to its importance on ethical, environmental and well-being issues.

For over the last few decades, attention has been given in literature to the topics of CSR and customer loyalty, and also the relationship between consumers' behavior in terms of their patronage and business ethics. However, additional and in-depth investigation on the impact of ethical dimensions of CSR on customer loyalty is needed. Corporate social responsibility has been seen as are action to problems when they occur hence, organizations do not addresses ethical concerns from its very foundation and includes ethics in business strategy, so as to allow social responsibility to be integrated into their daily decision making(Nicolae & Sabina, 2010). Moreover, little is known about the existence and nature of such relationship and its effects to the food and beverage industry. It is upon this premise that this study looked at the impact of ethical dimensions of corporate social responsibility on customer loyalty of some selected food and beverage companies in Lagos State, Nigeria

### **Statement of Problem**

Despite increasing interest in CSR, the dominant literature of CSR focuses mainly on the compliance oriented activities such as meeting the legal requirements, government concerns, stakeholder management and satisfaction, and fulfilling community concerns of triple bottom line. Corporate social responsibility has been seen as a reaction to problems when they occur hence, organizations do not addresses ethical concerns from its very foundation and includes ethics in business strategy, so as to allow social responsibility to be integrated into their daily decision making(Nicolae & Sabina, 2010).

### **Objective of the Study**

The objective of this study is to determine the effect of ethical dimension of corporate social responsibility on customer loyalty on selected food and beverage companies in Lagos State, Nigeria.

### **Research Question**

The study will answer this research question below;

1. To what extent does ethical dimension of corporate social responsibility affect customer loyalty?

### **Research Hypothesis**

**H<sub>0</sub>:** Ethical dimension of corporate social responsibility has no significant effect on customer loyalty

### **Review of Literature**

#### **Ethical Dimension of CSR**

Corporate social responsibility has received a lot attention from various academic and professionals which has come out as an aspect that can help to increase the financial performance of an organization as well as giving a better image of the company which will increase its sales revenue due to reliable products having more demand (Tyagi, 2012). CSR notions were being applied by organizations since a very long time in many developed countries, resultantly the quality and productivity has been improved (Costa & John, 1998).

CSR has been embraced by organization because customers as well as governments today are demanding more ethical behaviors from organizations (Emily, Mwalati, Robert, Musiega & Maniagi, 2014). It is in response to this demands that, corporations are now volunteering themselves to incorporate CSR as part of their business strategies, mission statement and values in multiple domains, respecting labor and environmental laws, while taking care of the contradictory interest of their various stakeholders in order to meet up with their expectations from the organization (Kashyap, Mir & Iyer, 2006). Nicolae and Sabina (2010), defined the ethical dimension of CSR as a set of behaviors and activities that are permitted or proscribed by organization members, community, society, even if they are not codified by law.

Whilst economic and legal responsibilities incorporate ethical rules about fairness and justice; ethical responsibilities encompasses activities and practices that are acceptable or unacceptable by the society, though not codified into law. Ethical responsibilities refer to strategic managers' values about right and wrong business behavior or conduct (Fadun, 2014). Ethics or values are dynamic and precede the establishment of law and order in the society (Gerald & George, 2008). Ethical responsibility refers to voluntary coordinating management with moral and ethical principles of society and community (Mihaljevic & Tokic, 2011). Ethical CSR constitutes a minimum level of responsibility to society, and implies that the firm avoids harm or social injuries even to exceed the formal legal duties where necessary (Frimpong, Adjei, & Poku, 2014). In essence, ethics are the driving force

behind the creation of laws or regulations. Moreover, ethical responsibilities embrace society emerging values and norms which a business are expected to meet. Sometimes, such values and norms may require a higher standard of performance than that required by law.

Ethical responsibilities are regarded as morally mandatory. Ethical CSR involves preventing or rectifying harm or social injuries, even if the company might not appear to have benefited from such endeavors (Branco & Rodrigues, 2007). Ethical CSR are required and are seen as very essential even if their fulfillment is detrimental to the company's profitability. Companies are considered as morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual, and emotional) from a particular course of action (Branco & Rodrigues, 2007). Carroll's ethical component advocates the need for a firm to; perform in a manner consistent with societal expectations and ethical norms; recognize and respect new or evolving ethical/moral norms adopted by society, and prevent ethical norms from being compromised in order to achieve corporate goals (Carroll, 2006). Ethical dimension of CSR is measured in terms of societal mores and ethical norms, extent that organization adjust themselves to emerging moral norms, degree of compromising ethical standards or norms, corporate citizenship behavior accepted by society and the extent that organization go beyond the legal and regulation requirements to maintain integrity of the organization (Carroll, 1991). Also ethical responsibilities can be determined by using standards, norms and expectation (Onlaor & Rotchanakitumnui, 2010).

Ethical relations refers to behaviours and activities that are permitted or prohibited by organization members, community, society, even if they are not codified by law (Nicolae & Sabina, 2010). Milton Friedman states that the basic mission of any business is to produce, with profit, goods and services, making the business to achieve its maximum contribution to society and, in fact, to be socially responsible (Friedman, 2007). Social responsibility cannot be just a response to problems when they arise. Only if the firm includes ethical concerns since its foundation and includes ethics in businesses strategy, social responsibility, as a concept, is integrated into daily decision making.

### **Customer Loyalty**

Customer loyalty is an imperative factor for the continued subsistence and operation of organization (Chen & Hu, 2010). Customer loyalty can be assess by the intention of repurchase, re-patronize, and recommending the product/services to others and patience towards price (Kim & Yoon, 2004). Auh and Johnson (2005) opined that customer loyalty is use to measure repeated purchasing and forbearance for price. Customer loyalty refers to a strong obligation for repurchasing a product or superior service in the future, such that same product or service can be purchased regardless of the influences and efforts of competing firms (Fakour, 2010). Varki and Colgate (2001), asserts that customer loyalty starts by letting the customers know what the organization values about them (as the customers). This can be articulated inform of a memo, newssheet, bulletin, newspaper, newsletter mailed to their existing customers, and at the same time. Ogunnaike, Salau, Sholarin & Taiye (2014) states that it becomes vital for organizations to notify the respective

customers on the exceptional services provided and made available for the customers. Customer loyalty can also be seen as a new form of directing organizational resources towards exceptional performance (Petasis & Opoku-Mensah, 2009). Customer loyalty is defined as the strength of customers dispositional affection to a brand (or service) and their intent to re-buy the brand (or re-patronize the brand) in future (Pan, Sheng & Xie, 2011). Customer loyalty is defined as a genuinely held pledge to rebuy or repatronize a chosen product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior in customers (Walsh, Evanschitzky, & Wunderlich, 2008; Oliver, 1999). Customer Loyalty is a psychological character formed by constant satisfaction of the customer together with emotional attachment fashioned with the service provider that leads to a state of willingly and consistently being in the relationship with preference, patronage and premium (Alok & Srivastava, 2013). Chaffey (2008) defined consumer loyalty as a craving on the part of the customer to continue to conduct business with a given company over time. Customer loyalty is defined as the relationship of relative attitudes on object (brand, service, and dealer) and repeat patronage (Dick & Bash, 1994).

## **Theoretical Review**

### **Stakeholder theory**

Stakeholder theory was propounded by Edward Freeman in 1984. The evolution of stakeholder theory is an alternative to the shareholder theory (Spence, Coles, & Harris, 2001). According to stakeholder's theory, most of the business organizations, if not all, have an incorporated set of stakeholders to which these organizations have responsibility and obligation to perform (Cochran, 2004). Stakeholder theory is a vigorous response to the financial theories that focused on maximizing the economic interests of the residual owners of the business. According to Freeman (1984) stakeholder theory does not only consider the sole objective of maximizing the wealth of shareholders but also focuses on the welfare of all others who are directly or indirectly related with the organization.

Mele (2008) outlined various strengths of the stakeholder theory. Firstly, the theory seems ethically superior to maximizing shareholder value because it takes into deliberation the right of the stakeholder and their genuine interests, and not only on what is strictly accepted by law in manager-stakeholder relations. Secondly, the stakeholder theory has outdated the theoretical imprecision of CSR by tackling tangible interests and practices; and also visualizing specific responsibilities to precise groups of people affected by business activity (Melé 2008; Clarkson, 1995). Additionally, it was also pointed out that stakeholder theory is a managerial theory that is related to the organizational goals and it is not approached within reach of business management (Mele, 2008). Finally, the stakeholder theory ensures long-term success and achievements rather than short-term success.

The criticisms of the stakeholder theory have been argued by various scholars. Branco and Rodrigues (2006) pointed out that stakeholder theory has not fully tackled the mute stakeholder (which is the natural environment) and absent stakeholders (that is, potential

victims). Phillips and Reichart (2000) also revealed that the natural environment should be considered a stakeholder. Nevertheless, this viewpoint has been criticized by other scholars since the natural environment cannot be considered a stakeholder. The phrase 'stakeholders' usually refer to a group or individuals and as a result, cannot be considered a stakeholder (Buchholz, 1991) only human beings can be considered as organizational stakeholders (Branco & Rodrigues, 2007). Another criticism is that the power of stakeholder groups is weakened by stakeholder theory since the theory states that corporations should treat all equally. Consequently, labour unions could be eliminated (Weiss 2008).

**Methodology**

The design adopted for the study is exploratory survey design. The survey design allows the use of a well-structured research instrument for obtaining primary data that was used for this analysis. It also gave the opportunity of describing existing conditions through the collection of primary data that are useful for identifying variables and hypothetical constructs which can be further investigated. The population of the study consists of management staff (at the strategic and operational management level) from two food and beverage companies in Lagos state giving a population of 1,987. Taro Yamane formula was used to arrive at a sample size of 433. A structured questionnaire was administered which gave a response rate of 91.7%. The data gathered was analyzed through inferential analysis (simple linear regression analysis) which was aided by the statistical packages for social science 21.0.

**Data Presentation and Analysis**

The research instrument collected from respondent was analyzed using the simple linear regression analysis. The analysis was used to test the effect of ethical dimension of CSR on customer loyalty. The result is shown in Table 4.1;

**Restatement of Hypothesis (H<sub>0</sub>):** Ethical dimension of CSR has no significant effect on customer loyalty of selected food and beverage companies in Lagos State.

**Table 1: Regression Result for Hypothesis**

Model	R	R <sup>2</sup>	B	Std.Error of the Estimate	T	F-value	Sig.
1	.704	0.495	8.630	7.154	695.692	168.77	0.000
<b>BI</b>		0.543	12.991				

**Source:** Field Survey Result, 2017

**Estimated Simple Linear Regression Model:**

$$\begin{aligned}
 &Y_1 = f(x_1) \\
 &Y_1 = \text{Customer Loyalty (CL)} \\
 &X_1 = \text{Ethical dimension of CSR (ECSR)} \\
 &CL = 8.630 + 0.543ECSR \dots \dots \dots (1)
 \end{aligned}$$

The interpretation of the information provided in Table 4.1 about the regression analysis is provided as follow. The result revealed that a unit increase in ethical relations will lead to a 0.543 increment in customer loyalty. The R column is the relationship between ethical CSR and customer loyalty. R square is the square of R which also known as coefficient of determination. It explains the proportion of the variation in the dependent variable that can be attributed to the independent variable.

In this study, 49 per cent of the variation of customer loyalty value appears accounted by ethical relation. The standard error of estimate indicates that, on average, observed brand identity value scores deviate from the predicted regression line by a score 7.15469. The regression model explains 49% of the variation. It cannot account for the other 51 per cent, which most likely represents both measurement error in independent variables as well as other factors affecting brand loyalty that has not been considered. The Table also shows that ethical relation (0.000)  $p < .05$ , was found to have a significant effect on customer loyalty. Based on this result, we reject the null hypothesis ( $H_0$ ), which states that ethical CSR have no significant effect on customer loyalty.

### **Discussion**

The study investigated the significant relationship between ethical relation and customer loyalty. The result showed that a significant relationship exist between ethical dimension of CSR and customer loyalty. Ethical CSR is one of the measures of corporate social responsibility and also an integral part of corporate social responsibility in any organization.

The findings of this study is consistent with the findings of Yusof, Manan, Karim and Kassim (2015), which carried out a study on customer's loyalty effects of CSR initiatives. After analysis of the data obtained from customers, it was discovered that ethical CSR of an organization significantly affect customer loyalty as customers are only willing to patronize companies that are morally responsible to the society.

The study of Murali, Wayne and Sumitra, (2012) was also in agreement with other study that the practice of corporate social responsibility especially in terms of ethical dimension in most organization will indefinitely provide them with an additional advantage towards customer loyalty, and hence increase their competitive edge over rivalry firms. The study also shows that it is important for an organization to take into cognizance existing norms and values of the society within which they operate. The findings from the study of Alrubaiee (2012) shows that the relationship between ethical corporate social responsibility and customer loyalty is mediated by level of trust, commitment and reliability hence; there is a need to hold the society norms in high esteem.

The work of Salmones, Crespo, and Bosque (2005) shows that all CSR dimensions (including ethical and philanthropic) have positive influence on customer satisfaction and loyalty (economic measured by mean of price fairness) except making profit to shareholders. Moisescu (2015) states that CSR policies and actions regarding public authorities, the environment, community development, societal norms and sponsorship should also be actively disclosed in order to gain customer loyalty.

## Conclusion

The findings of the study show that some organizations have not considered the ethical norms and value system which governs and shapes your society. However, it becomes difficult for organizations to enjoy consistent patronage from their customers. The finding also revealed that managers have not fully integrated the concept of CSR into their corporate strategy. The study therefore recommends that it is very essential for organizations to integrate the moral values, norms and ethics into their strategy in order to reap the benefit of consistent patronage.

## Recommendations

1. This study also recommended that food and beverage companies and the manufacturing industry in general should regularly engage in ethical practices which will lead to their overall performance in terms of customer loyalty.
2. They should also ensure that ethical relation of corporate social responsibility should be fully integrated and implemented into the organizations' corporate strategy.
3. This study also suggests that ethical relation which is the voluntary coordination of management with moral and ethical principles of society and community is another avenue for food and beverage companies to achieve performance reducing African dependency.

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