

PERCEIVED EFFECT OF PHILANTHROPIC RELATION ON CUSTOMER LOYALTY

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Abstract

There has been intense competition amongst the food and beverage industry as organizations are striving to gain customer loyalty in the same market. Hence, there is need for this organization to go beyond borders in order to gain customer loyalty. Organizations therefore have employed the philanthropic aspect of corporate social responsibility in order to enjoy consistent patronage from their customers. This study seeks to evaluate the perceived effect of philanthropic relation on customer loyalty in selected food and beverage companies in Lagos State, Nigeria. Survey research was employed for this study. The population of the study consists of management staff (strategic and operational management level) from the Nigeria Bottling Company and Seven-Up Bottling Company 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 instrument was validated and the Cronbach Alpha reliability for the construct was 0.823. The results of the analysis show that philanthropic relation has a significant effect on customer loyalty ($R^2 = 0.880$, $p = 0.000 < 0.05$). The R^2 which is the coefficient of determination explains the proportion of the variation (which is 88%) in the customer loyalty that can be attributed to philanthropic relation. The study therefore concludes that there is a significant relationship between philanthropic relation and customer loyalty. The study then recommends that philanthropic relation should be integrated in the organizations' strategy and should not be seen as a mere giving where only the community benefits.

Keywords: Perceived effect, Philanthropic relation, Customer loyalty,
Food & Beverage industry.

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Background to the Study

Corporate social responsibility (CSR) has been present in the Management and Accounting literature for about 45 years (Wood, 2010). Both organizations and societies have significantly increased their focus on CSR in recent years (Adams & Frost, 2006; Gulyás, 2009; Young & Thyl, 2009). Traditionally, companies have to focus on strategies for their business operations and profit such as differentiation, diversification, turnaround, concentration and globalization. However, recent developments in strategic thinking support the need to add activities that expand out from the company into society. Scholars have identified these activities as corporate social responsibility (CSR) activities (Carroll 2006; Margolis & Walsh, 2001). This coincides with the concept of increasing corporate wealth which is now vanishing against the broader concept of organizational success. Today the most important matter for corporations is sustainable growth, especially in the era of global recession. Researchers are advising corporations to consider the amount spent on corporate social responsibility as investment rather than expenses (Arx& Ziegler, 2008; Turker, 2009).

Corporations are using corporate social responsibility to strengthen its relationships with different stakeholders including customers, investors, government, suppliers, and employees which influences its organizational performance (Rettab, Brik&Mellahi, 2009). The philanthropic aspect of corporate social responsibility has been popularized over the last few decades as companies usually pay more attention to it. Though a number of companies engage in one form of corporate social responsibilities or the other, a good number of them have not fully accepted it and integrated it into their business strategies to reap the benefits that come with it. Some managers do not see value in corporate social responsibility practice. In fact, to such managers it does not form part of the objectives of the business which is profit maximization. Other managers think CSR is just a philanthropic activity and a matter of giving back to society and that the company does not stand to gain anything by engaging in corporate social responsibility practices (Frimpong, Adjei, & Poku, 2014). Even though there are initiatives for an increase in role of a caring business, several corporations seem to get lost in their focus on CSR. As a contradiction to the recent trends, there are indeed several businesses focusing on creating profit, rather than being socially responsible (Brunsael, 2009).

Objective of the Study

The objective of the study is to evaluate the impact of philanthropic relation on customer loyalty.

Hypothesis

H₀1: Philanthropic relation has no significant impact on customer loyalty.

Review of Literature

Philanthropic Relation

Philanthropy entails corporate actions, towards promoting human welfare or goodwill, in response to society's expectations that businesses should be good corporate citizens. Philanthropic responsibilities are voluntarily assumed by business; such as public relations, good citizenship, and contribution to education or community (Grayson & Hodges, 2004). Company fulfils its philanthropic responsibility by contributing to community through

investment of the company's goods (Mihaljevic & Tokic, 2011). The main difference between philanthropic and ethical responsibilities is that ethical components are expected in an ethical or moral sense, but philanthropic components are not. Philanthropy is voluntary or discretionary on the part of a business (Aminu, Harashid, & Azlan, 2015). Carroll's philanthropic component emphasises the need for a firm to: perform in a manner consistent with philanthropic and charitable expectations of society, and voluntarily assist projects that enhance a community's quality of life (Carroll, 2006). In response to social and stakeholder concern, many firms in Nigeria are adopting policies directed at the ethical responsibilities of business. According to Carroll (1991), this is the highest level of CSR, where it will be measured in terms of philanthropic and charitable expectation of society, assistance provided to fine and performing arts, extent that managers and employees of the organization involvement voluntary charitable activities organized by community, and assistance provided by organization to the projects that enhances "quality life" (Carroll, 1991). Figarand Figar (2011) states that establishing philanthropy as company's strategic activity in the framework of socially responsible economy gives valuable, immaterial importance and contributes to competitive advantage.

Every company should include philanthropy in their business policy as part of responsible behaviour towards community. With these activities companies can build their identity and image (McAlister & Ferrell; 2002, Hall; 2006, Fahy, 2004), which insures competitive position (Porter & Kramer; 2002). Philanthropic dimension of CSR refers to companies contributing to the local community or society (Nicolae & Sabina, 2010). It offers four benefits to society. First, the philanthropic dimension improves quality of life. It helps the community to make there an area where customers want to do business and employees want to raise their children. Secondly, reduce the size of government involvement in charity offering help to people with legitimate needs. Thirdly, increase the staff leadership ability. Finally, the philanthropic dimension builds the staff moral principles. Employees who are volunteering have generally better opinions about themselves, their company and community.

Customer Loyalty

Customer loyalty is defined as a deeply held commitment to rebuy or repatronize a preferred 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 (Walsh, Evanschitzky, & Wunderlich, 2008; Oliver, 2000). Customer Loyalty is a psychological character formed by sustained satisfaction of the customer coupled with emotional attachment formed 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 desire 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). Homburg and Giering (2001) note that, customer loyalty has been perceived to be a behavioural concept entails repeat buying of product or service measured as the series or share of purchases, referrals, magnitude of relationship or all of the above mingled together.

Kumar and Shah (2004), the main goal of every company is profitability and one method to achieve this is for a company to gain and maintain loyal customers. If a company invests resources to build customer loyalty without focusing on profitability, it may lead to failure in the long run (Gustavsson& Lundgren, 2005). Marken (2001), it is more economical for a company to keep customers loyal than if the company has to replace them. Gustavsson et al(2005) state that companies are aware of the importance of customer loyalty by having introduced customer loyalty programs and for putting a lot of efforts on keeping customer's loyal in order to gain superior performance. Customer loyalty not only ensures repeat purchases and positive publicity with greater value in terms of reliability, it also leads to host of other significant benefits such as cross buying intentions, exclusive and priority based preference to the company and its products and services, greater share of wallet and so on which provide a competitive edge to the company (Alok&Srivasta, 2013).

Philanthropic Relation of Corporate Social Responsibility and Customer Loyalty

CSR leads to a higher customer loyalty, which is defined as an overall evaluation based on the customer's total purchase and consumption experience with a good or service over time (Luo& Bhattacharya, 2006). Pomeroy and Dolnicar (2006) shows that companies choosing to pursue CSR programs with the expectation of a simultaneous improvement in customer loyalty may be misguided to spend precious resources towards causes that do not benefit the majority of their own customer's loyalty. Customer loyalty is mediated by the relationship between CSR and firm market value (Luo& Bhattacharya, 2006). CSR either in the form of support for a non-profit organization and/or positive ethical practices, led to customer loyalty, which then impacted customer behaviours in the form of the percentage of purchase (Lichtenstein, Drumright, & Braig, 2004). According to Liu and Zhou (2010) states that to win loyalty in today's markets, companies have to focus on building and maintaining customer loyalty and CSR has become a useful tool.

The practice of CSR in most organization believes that CSR will indefinitely provide them with an additional advantage towards customer loyalty, and hence increase their competitive edge (Murali, Wayne,&Sumitra, 2012). Brummer (1991) described four approaches to CSR in his book corporate responsibility and legitimacy. He considered the classical, stakeholder, social demandingness and the social activist models in relation to CSR. Under the classical model, companies should act in society as economically responsible rather than been socially responsible. Therefore, the primary goal of the corporation should be to maximize profit and the primary obligation of managers is to act in the interests of shareholders while not breaking the law.

However, CSR appeared to have a significant influence on consumers' valuation services and since the overall service valuation turned out to have a strong positive correlation to customer loyalty, it was concluded that CSR indirectly influence customer loyalty (García&Salmones, 2005). Liu (2010) performed a study on the perceived CSR and customer loyalty based on the dairy market in China. The results from the regression analysis showed that product quality, trust, image and satisfaction have a positive influence on customer loyalty, while there was no significant direct correlation between CSR and customer loyalty. The relationship between ethical behavior and customer loyalty is mediated by level of trust, commitment and reliability (Alrubaiee, 2012).

Swaen (2008) suggest that CSR initiatives positively influence customer satisfaction, customer loyalty, market value, and organization performance. All CSR dimensions have positive influence on customer satisfaction and loyalty (economic measured by mean of price fairness) except making profit to shareholders (Salmones, Crespo, Bosque, 2005). CSR initiatives affect customer satisfaction and loyalty-customer perception about price fairness, service quality, network quality, and privacy concern will have an impact on customer satisfaction which in turn leads to customer loyalty (Wichai&Siriluck, 2010). Wonseok, Wonjong, Gwijeong, and Kihan(2015) in a study building customer loyalty through CSR: moderating effect of authenticity. The result from the study shows that CSR has a positive effect on brand image and customer trust, each independently influences customer loyalty. The study demonstrates that CSR plays a role of a contributor to customer loyalty through brand image and customer trust.

Stanaland, Lwin, and Murphy (2011), after investigating 443 US customers of companies from several industries, found that perceived CSR (measured as commitment to ethics principles, respect to employees, long-term success, and playing a role in our society that goes beyond the mere generation of profits) impacts perceptions of corporate reputation, consumer trust, and loyalty. He and Li (2011) revealed that both CSR and service quality have direct effects on brand identification and customer satisfaction, and, respectively, indirect effects on service brand loyalty (via brand identification and customer satisfaction). Moisescu (2015) states that CSR policies and actions regarding public authorities, the environment, community development and sponsorship should also be actively disclosed in order to gain customer loyalty.

Methodology

The design adopted for this study is the survey design, which was employed to empirically investigate the degree of effect one variable has on another. Survey design involves collection of data in order to test hypotheses and provide answers to question concerning the current status of subjects(s) in a study (Asika, 2004).

This design was preferred because it largely focuses on vital facts, beliefs, opinion, demographic information, attitudes, motives and behaviors of correspondent giving responses to the research instrument (Aliyu, Tudun&Oladejo, 2014; Osinbanjo, 2014). The survey was based on primary source of data collection (Questionnaire). It is an appropriate method because of its uniqueness and relevance as it concentrates on descriptiveness of the event. For the study, quantitative approach was used in analyzing the data collected. Quantitative approach was adopted because it permits measurement of objectives facts using variables, statistical analysis and reliability testing (Basheer et al, 2011).

Findings

Regression Result

Model	R	R ²	Unstandardized Coeff.		T	F-value	Sig.	Std. Error of the Estimate
			B	Std. Error				
1 (Constant) BI	.938	0.880	.360	.815	.442	1262.807	.000	3.48678
			.506	.014	35.536	.000		

Source: Field Survey Result, 2016

Estimated Simple Linear Regression Model

$$\begin{aligned} Y_1 &= f(x_1) \\ Y_1 &= \text{Customer Loyalty (CL)} \\ X_1 &= \text{Philanthropic Relations (PHR)} \\ CL &= 0.360 + 0.506\text{PHR} \dots\dots\dots (1) \end{aligned}$$

The result revealed that a unit increase in philanthropic relations will lead to a 0.360 increment in customer loyalty. The R column is the relationship between philanthropic relation 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, 88 per cent of the variation of customer loyalty value appears accounted by philanthropic relation. The standard error of estimate indicates that, on average, observed customer loyalty value scores deviate from the predicted regression line by a score 3.48678. The regression model explains 88% of the variation. It cannot account for the other 12 per cent, which most likely represents both measurement error in independent variables as well as other factors affecting customer loyalty that has not been considered. The Table also shows that philanthropic relation (0.000) $p < .05$, was found to have a significant effect on customer loyalty. Based on this result, we reject the null hypothesis three (H_{04}), which states that philanthropic relation has no significant effect on customer loyalty

Discussion

The study investigated philanthropic relation and customer loyalty and the result reveals that there is a significant relationship between philanthropic relations and customer loyalty. This finding was consistent with the expectation based on the hypothesis that was raised for this study.

This finding was also in line with the findings of Rodrigues, Real, Vitorino and Cantista (2011), the findings of their studies point to the need for companies to gamble more on social responsibility policies, as these help to create the company image, and leading to consumers been more loyal and willing to pay higher prices. Pomeroy and Dolnicar (2006) shows that companies choosing to pursue CSR programs with the expectation of a simultaneous improvement in customer loyalty may be misguided to spend precious resources towards causes that do not benefit the majority of their own customer's loyalty.

Salmones, Crespo and Bosque-Del (2005) studied the impact of perceived CSR (considering philanthropic, economic, legal, and ethical aspects) on the overall evaluation of the service and brand loyalty, conducting a survey among 689 mobile telecom services users from Spain. The study concluded that there isn't any direct relation between CSR perceptions and consumer loyalty towards the firm, but perceived CSR influences loyalty indirectly via the overall valuation the user makes of the service received.

Vlachos, Tsamakos, Vrechopoulos and Avramidis(2009) investigated whether consumers' perceptions of CSR motive(that is philanthropic relation) influence their evaluation of CSR efforts, revealing that appropriately motivated CSR actions positively affect trust, and indirectly,

customer loyalty, regardless of the performance of the firm on service quality provision. Philanthropic CSR has a significant influence on consumers' valuation services and since the overall service valuation turned out to have a strong positive correlation to customer loyalty, it was concluded that CSR indirectly influence customer loyalty (García&Salmones, 2005).

Conclusion and Recommendation

There is a significant relationship between philanthropic relation and customer loyalty. This is evident in the positive relationship that was obtained from the analysis. The food and beverage companies have achieve a great sense of customer's loyalty which was attributed to their philanthropic relation. The study then recommends that philanthropic relation as earlier stated in this study is voluntarily giving back or reaching out to the society. Therefore, philanthropic relation should be integrated in the organization strategy and should not been seen as a mere giving where only the community benefit. It should be seen as a platform which increases the overall performance of the organization, which can also lead to a triple effect. There is a need for food and beverage companies to embrace philanthropic relations as it creates an opportunity for them to achieve customer retention. It is easier and less costly to retain customers than attracting new ones. Philanthropic relations bring about positive brand identity and allow customers to associate themselves with the brand. Therefore, it is needful for organizations to engage in philanthropic activities such as scholarships, repairing of roads, and construction of pipe-borne water in order for the company to enjoy continuous patronage from their customers as against their rivalry firms.

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