

# Corporate Social Responsibility and Consumer Buying Behavior in Emerging Market: A Mixed Method Study

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## Abstract

A number of companies are involved in various social responsibility programs aimed at increasing consumer trust in their services and improve overall image of the firm. This phenomenon is prevalent in developed world but is still new in emerging economies. In a developing country like Pakistan, Corporate Social Responsibility (CSR) is affected by various factors. The purpose of this mixed method study is to examine key antecedents to consumer responses to CSR to determine a link between CSR activity and consumers' responses to such actions. After a qualitative study, a pre-tested structured questionnaire was administered to 224 respondents. The constructs were validated using confirmatory factor analysis and regression analysis was conducted to test hypotheses. It was found that purchase intention was impacted by perceived CSR which was positively influenced by awareness while trust played a pivotal role as a mediator between CSR and purchase intention. Surprisingly, religiosity was not significantly related to CSR. The study was conducted using a hypothetical company; however more insight might be gained if the company name was used since certain consumer patterns are brand specific.

**Keywords:** CSR, trust, purchase intention, awareness, religiosity

## 1. Introduction

Corporate social responsibility (CSR) has become an important topic in both academic literature and business world in the past two decades (Fatma & Rahman, 2015). The role of CSR in influencing perception and attitude has been debated both in the academia and practitioner domain (Rahman & Norman, 2016). It is stated that CSR positively influences firm's financial performance (Weinzimmer & Esken, 2016), supports its share prices (Cochran & Wood, 1984), shores up its market values (Mackey et al., 2007) and provides competitive advantage (Diddi & Niehm, 2016). Also, consumers now want companies to behave ethically in addition to providing quality product at a lower price (Bhattacharya & Sen, 2004). Robinson et al. (2012) found that likelihood of the product purchase increased when consumers were given the option to support a social issue through the purchase of a product. Crowther (2004) is of the view that companies can "*derive enormous benefits if they are perceived to be socially responsible by their stakeholders*". Sen and Bhattachariya (2004) attested that among all the stakeholders of a company, consumers are most influenced by the social initiative undertaken by a firm.

There has been significant growth in the publication of studies on CSR in last five years; however, most of the studies were conducted in developed countries focusing on Western context (Fatma & Rahman, 2015). Thus, the impact of CSR in developing nations has remained largely unexplored. In fact, Kolk et al. (2015) established that constructs developed in the West are not applicable the same way in China, and suggested that there is a need to focus on non-Western countries.

Feldman and Vasquez-Parraga (2013) state that research on CSR might be reaching maturity, but consumer responses to CSR activities are not well researched. They claim that findings from studies examining the relationship of consumer responses to CSR activities are still debatable. Some studies indicate a clearly positive relationship between consumer responses and firm's CSR actions (e.g., Carvalho et al., 2010; Ellen et al., 2006; Smith & Langford, 2009) and others report that this relationship is "not always direct and evident" (e.g., Fatma & Rahman 2015; Fatma et al., 2015; Valor, 2008).

The results from surveys investigating the relationship between consumer responses to CSR actions have failed

to reach a consensus. On the one hand, some studies report a positive relationship between a company's CSR actions and consumers' reaction to that company and its products (Brown & Dacin, 1997; Carvalho et al., 2010; Ellen et al., 2006). On the other hand, some surveys indicate that the relationship between a company's CSR actions and consumers' reactions is not always direct and evident, suggesting numerous factors influence this relationship (Carrigan & Attalla, 2001; Maignan & Ferrell, 2004; Valor, 2008).

The relationship between 'consumer awareness' and 'knowledge about CSR' has been identified as an area which requires further examination (Fatma & Rahman, 2016; Rahim et al., 2011; Pomeroy & Dolnicar, 2009). Feldman and Vasquez-Parraga (2013) state that consumer's 'motivation to support' a firm's CSR activities are linked with consumer's personal characteristics, values, and religiosity. However, the concept of religiosity has not been examined sufficiently in this context. It is generally observed that in developing countries such as Pakistan, religion plays a key role in decision making process of consumers. Religiosity is known to have a deep influence on the value system of an individual which in turn influences the attitudes and behavior (Ramasamay et al., 2010).

This paper aims to address above gaps in the literature and examines less researched areas. This paper intends to explore the developing economy of Pakistan and investigates the social responsive behavior of Pakistani consumers. The objective of this study is to re-examine key antecedents to consumer responses to CSR in order to establish a clear link between CSR activity and consumers' responses to such activity. This paper will depart from the previous studies by interpreting the CSR relationships from a South Asian perspective where the factor of religiosity will also be taken into account. The paper attempts to gain a better understanding of the behavioral implication in response to social initiative undertaken by firms. This paper poses the following questions:

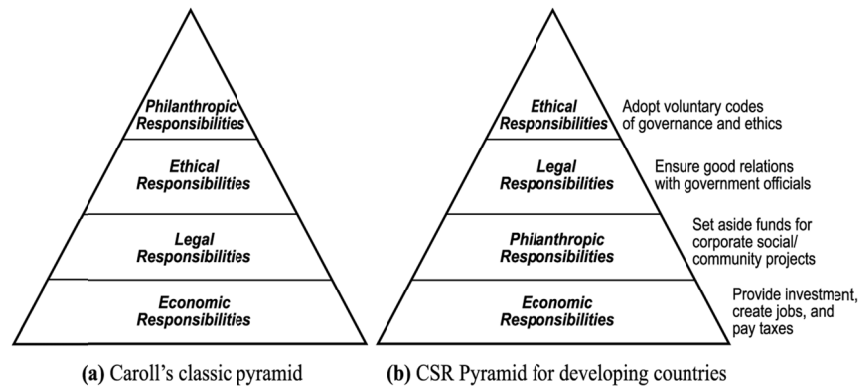
1. What is the impact of CSR activities on consumers purchase intention in an emerging market?
2. What is the effect of awareness on purchase intention?
3. Does trust of CSR play a mediating role between customer's perceived CSR and purchase intention?
4. To what extent religiosity of customers impacts CSR?

The paper is organized as follows. In the next section relevant literature and the hypotheses will be discussed. Then the paper will provide an overview of the methodology and the findings based on analysis. The paper concludes with managerial implications and future research directions.

## 2. Literature Review and Hypothesis Development

There has been a growing debate over how to define the socially responsible behavior of a company. There is no one universally accepted definition of corporate social responsibility (Ahmad, 2006). The definitions of CSR have been evolving with time. The pool of literature focused on defining CSR can be categorized into a two clusters. There is one group of academics including individuals like Milton Friedman who consider social responsibility of any firms as a way to maximize profits. On the other end there are academics like J.W McGuire who contend performing every social deed to be the responsibility of the company.

The paper adopts the Carroll's model in defining CSR in the Pakistani society. Carroll (1991) established a seminal definitional construct of CSR which states that social responsibility of business encompasses "*economic, legal, ethical and philanthropic expectations*" that society has of organizations (p.40). Her "*four-part pyramid construct can be useful to look at how CSR is manifested in a developing country context*" (Visser, 2006). However, in developing countries like Pakistan, Carroll's model (Figure 1) deviates from the classic pyramids defined in developed countries. More emphasis is placed on economic and philanthropic activities rather than economic and legal.



Sources: (a) Carroll (1999); (b) Visser (2008)

Figure 1. Carroll's pyramid

Economic “responsibilities are the basic level of CSR which must be carried out by corporations with no doubt” (Tian et al., 2010). Therefore, this study mainly discusses CSR activities from a philanthropic perspective. Philanthropic activities have been defined as setting aside funds for corporate and community projects (Visser, 2008). In countries like Pakistan, philanthropic activities are emphasized due to increasing socio-economic needs of the society and are considered the right thing to do by corporations.

The current literature examining relationship between CSR and consumer response has identified a number of relevant variables such as company evaluation, product association, trust, perceived CSR, awareness and purchase intention. However, based on the gaps identified after extensive literature review, this paper will focus on trust, perceived CSR and awareness, and then, it will analyze their influence on the purchase intention of the company. As depicted in Figure 2, religiosity will be incorporated along with the above mentioned variables in our development of hypothesis in the next section.

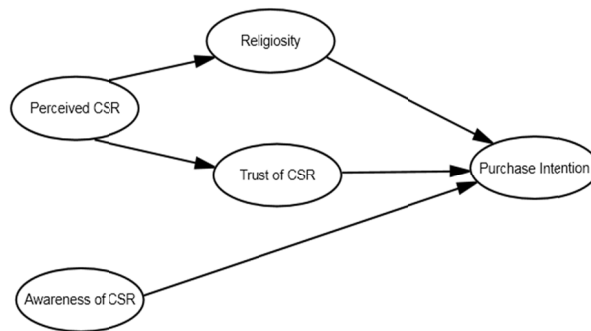


Figure 2. Conceptual framework

The research conducted by Sen and Bhattachariya (2001) and Brown and Daicin (1997) has indicated that perceived CSR has direct impact on the purchase intention of an individual. Based on the different concepts related to CSR, perceived CSR can be defined as consumer’s perception of whether or not the company is capable to conduct its operations in a socially responsible manner and its ability to contribute to the welfare of the society. This perception is deemed to influence the decision making abilities of an individual. Studies on consumer behavior have provided sufficient evidences to indicate that negative perceived CSR leads to reduction in sales. On the other hand, the issue of positive attitude towards product leading to a higher purchase is still debatable. The main question at helm is that in comparison to the traditional moderators of purchase e.g. price, quality and convenience, does positive attitude towards firm’s CSR positively impact firm’s sales. Biehal and Sheinin (2007) indicate that if the customers are unable to differentiate products among varying competitors than

CSR initiative are likely to make a positive impact on the product evaluation that will eventually transform to increase in purchases. Thereby it is hypothesized that:

*H1: Consumer's perception about CSR is positively associated with purchase intention.*

Every firm looks to develop rapport with its consumers in order to be successful in this competitive world and this association is not very straight forward. Bhattacharya and Sen (2004) state that it is a complex relationship with many factors and variables operating at the individual level (e.g., consumer personal preferences, perceptions and values) and at the company level (company's domain of corporate social performance). Pivato et al. (2008) clearly showed that one of the core and central variables in many relationships between the targeted consumers and firm is trust and socially orientated companies can use this variable in order to get a competitive advantage. Trust is defined by Pivato et al. (2008) as: "an expectation that the trustee is willing to keep promises and to fulfill obligations". Consumer trust helps to shape future actions and attitudes of an individual in response to the CSR campaign of the firm. Resultantly, a stronger consumer-firm relation suggests a positive correlation between consumer behavior towards the company and its products (Smith, 2003; Bhattacharya & Sen, 2004; Pigott, 2004). Therefore it can be stated that:

*H2: Trust plays a mediating role in the relationship between perceived CSR and Purchase Intention.*

It can be argued that cultural and value system of an individual influence one's buying patterns just like economic factors influence the decision making abilities of an individual. It guides individual in their preferences, attitudes and behavior towards different obstacles of daily life. In its essence it provides a background for ethical behavior of consumers. Most religion tends to promote their followers towards a concern for societal issues. "Business practices based on moral principles and 'controlled greed' were advocated by pre-Christian western thinkers such as Cicero in the first century and their non-western counterparts such as India's Kautilya in the fourth century" (Blowfield & Frynas, 2005). Although the word CSR may have originated in the 19th century but the concepts have been encouraged long before the industrial revolution.

Academic research has been done to identify the link between religiosity and social responsible behavior. The results however have been mixed. Agle and Van Buren (1999) indicated a semi positive relationship between certain religious beliefs and socially responsible behavior. Other studies found no difference of ethical behavior between religious and non-religious behavior. Graafland et al. (2007) found that socially responsible behavior tends to differ among religious people themselves. The degree of the importance of the role of religiosity on the purchase intention may not be ascertained globally but research done by Ramasamy et al. (2010) indicated that in Hong Kong "religious people are more supportive of socially responsible activities carried out by firms. They are more willing to purchase goods and services from firms that are socially responsible".

Although the concept of CSR has originated from Anglo Saxon communities but the Asian communities have not been unaware of the rights of societal obligations. Societies like Japan have had longstanding social contracts that instituted certain societal obligations to businesses. Historically, due to their varying cultural experiences, the interpretation of CSR has varied among societies in the developing countries. For example, in Thailand, environmental issues are the most cared about, whereas in India, economic empowerment is given the most importance. The difference in the perception of CSR can be traced back to the belief systems and values of society. Hence, religiosity is a major contributing factor.

Similarly, the Pakistani society consisting of a majority Muslim population is highly influenced by the religion of Islam. Ramasamy et al. (2010) included religiosity as a factor because of a large proportion of welfare activities being performed by religious bodies in Hong Kong and Singapore. If similar reasoning is applied to Pakistan, we see a large number of religious bodies involved in welfare activities in the country which is indicative of the fact that religiosity level in Pakistan will be relatively higher in comparison to a multicultural society like Hong Kong or Singapore. Therefore it seems valid to state that:

*H3: Religiosity plays a mediating role in the relationship between perceived CSR and Purchase Intention.*

Literature indicates that the major moderator of consumer responsiveness is the level of awareness. The experiments of Brown and Daicin (1997) have indicated that consumer knowledge of CSR can lead to positive evaluation of products. This implies that understanding the level of awareness plays a crucial role in analyzing the responsiveness. In the conceptual framework proposed in this paper, consumer awareness is considered to be an exogenous construct that directly affects the purchase intention. Awareness comes mostly from firm's deliberate marketing communication efforts (for example cause-related marketing programs). It can also come indirectly through third-party information (including approved seals) from sources such as government departments, the media, non-government organizations (NGOs), or the consumer's social reference group.

In Pakistan, CSR is still a relatively new concept and the awareness level of CSR projects among consumers might be low. In cause-related marketing (CRM), firm promises to donate a proportionate sum to either a nonprofit organization or to a social cause when consumer purchase its products or services (Nan and Heo, 2007). Consumer groups that have a higher level of awareness tend to have a positive response towards social initiatives taken by companies. Therefore it may be said that:

*H4: A higher level of consumers' awareness of CSR leads to consumers' more positive responses to consumers purchase intention.*

### **3. Methodology**

Three in-depth interviews and three focus groups were conducted first to understand consumer buying behavior towards organizations involved in CSR activities. It was found that the consumers from lower income group were mainly concerned with price and they did not care much about the CSR initiatives of company. Therefore, it was decided to limit sample for quantitative research to consumers from socio-economic class A and B. The respondents were personally approached for interviews in Lahore, the second largest city in Pakistan. The respondents were asked to read the brief material (Appendix) about the hypothetical firm; the material included information about the industry in which firm operated, its main products and its positive CSR record. Respondents were free to ask any question if they found any difficulty in understanding the information about the firm. A total of 224 valid interviews were conducted.

Measures for all of the constructs used in the study were available in the literature, and were adapted to suit the Pakistani context. To check their validity, three focus groups were conducted with respondents belonging to different socio-economic classes and educational backgrounds. Focus groups were also used to examine how consumers describe awareness, trust, purchase intention and religiosity. Participants were also asked about their responses to real world CSR initiatives taken by some companies. In order to avoid desirability bias, respondents were asked to write down their responses before discussing them. These results were helpful in generating and revising some of the items. After scale development, 15 respondents were asked to participate in the pretest of the questionnaire in which they stated the problems encountered by them while answering questions. The questionnaire was revised to accommodate the small changes indicated in the pretesting and then questionnaire was again pretested with another group of respondents before it was finalized.

The independent variables for this study were consumers' perceived CSR and awareness of CSR. Since this study focused on the positive effect of CSR on consumers, a hypothetical firm was shown with a positive CSR record. The company profile was presented at the start of the questionnaire. Appendix shows the CSR description for the household appliance industry as an example. Consumers were then asked questions based on that information. For all the measures, a five-point Likert scales was used.

### **4. Results**

Confirmatory factor analysis was conducted using Amos 7.0 (Figure 3) to check the measurement reliability. The measurement model has a good fit  $\chi^2(44) = 66.711, p < 0.015, CFI = 0.971, RMSEA = 0.048, NFI = 0.921$ . All fit indices are higher than the recommended levels (Roberts, 1999).

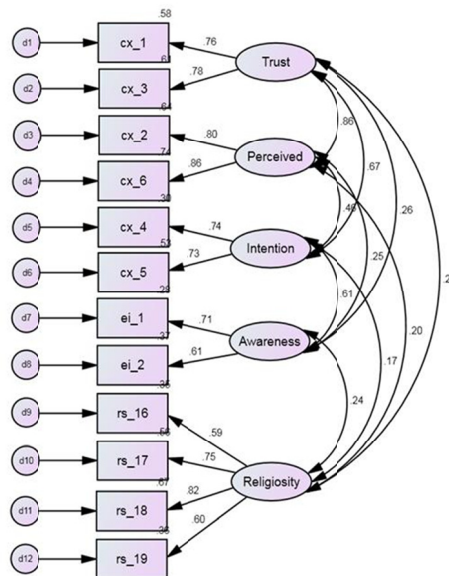


Figure 3. Measurement model

All factor loadings are higher than the recommended level of 0.5 (Bagozzi & Yi, 1988) and Chronbach alpha of every construct is higher than the recommended level of 0.7 (Hair et al., 2006), as depicted in Table 1.

Table 1. Factor analysis

Construct	Item	Factor Loading	Cronbach's Alpha
Perceived CSR	I feel that Social responsibility record of Company X is good	0.80	0.814
	Company X is a socially responsible company	0.86	
Trust of CSR	I think Company X took a lot of effort to be socially responsible	0.76	0.747
	I think company X's socially responsible actions are sincerely aimed at contributing to society	0.78	
Awareness of CSR	I care about environmental protection in my day to day activities	0.71	0.715
	I pay attention to some social issues involving multinational companies' donation	0.61	
Religiosity	I feel sorrow and dissatisfaction when I do something against my faith	0.59	0.770
	I have feeling of being afraid of Allah	0.75	
	I have a feeling of being punished by Allah when I do something wrong	0.82	
	I feel pleasure by seeing others follow Islamic teachings.	0.60	
Purchase Intention	I am willing to pay a little more for Company X's product	0.73	0.710
	If I am planning to buy a house hold product e.g. refrigerator, I will choose Company X's product	0.74	

In order to demonstrate the impact of perceived CSR and awareness of CSR on the dependent variable i.e. purchase intention, regression analysis was employed. As expected, the impact of both of the independent variables on purchase intention was positive. This was evident from the positive beta coefficients for both of these variables (Table 2). In addition, the impact of both these variables was statistically significant, because of negligible *p*-values corresponding to each of these variables.

Table 2. Regression coefficients

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(constant)	.791	.320		2.472	.014
Perceived CSR	.309	.068	.281	4.568	.000
Awareness of CSR	.302	.066	.284	4.614	.000

Based on the regression values, the hypotheses presented earlier were analyzed. Since p-value between perceived CSR and purchase intention is less than 0.001, null hypothesis was rejected even at 1% level of significance. This implies that  $H1$  is accepted. Likewise, the p-value between awareness of CSR and purchase intention is also less than the assumed level of significance. Hence,  $H4$  can safely be accepted. Conclusions about hypotheses' testing can also be corroborated from the relatively larger magnitude of t-values as against the threshold values at a particular significance level (e.g. 1.96 at 5 % significance level for a two-tailed test).

In order to check the mediating effect of trust and religiosity on purchase intention, a three step method recommended by Baron and Kenny (1986) was used. According to Baron and Kenny (1986), to establish mediation, the following three conditions must hold: "First, the independent variable must affect the mediator; second, the independent variable must be shown to affect the dependent variable; and third, the mediator must affect the dependent variable".

$H2$  was checked using the three steps mentioned above. It was found out that the three conditions hold with regression coefficients of 0.67,  $p < 0.01$  between Perceived CSR and Trust, 0.324,  $p < 0.01$  between perceived CSR and purchased intention and 0.434,  $p < 0.01$  between Trust and Purchase intention. As it is not the perfect mediation so to check the effect of partial mediation we used the Sobel test (Sobel, 1982). The result of Sobel test shows that the test statistics is equal to 4.69 at  $p < 0.01$ . Hence it is supported that the trust is the mediating variable between perceived CSR and purchase intention.

Same process was used to check the mediating effect of religiosity between perceived CSR and purchase intention. The three conditions, set forth by Barron and Kenny (1986), were not satisfied in case of religiosity. The  $p$  value is very high even at the significance level of 0.05 so null hypothesis is accepted and  $H4$  is not supported.

## 5. Discussion

Customer awareness, trust and perceived CSR are variables that can influence the buying pattern of individual which can turn out to be very crucial in dynamic and competitive environment of the current markets of the world. This research study surveys consumers in an emerging market to identify a link between consumer's purchase intention and CSR initiatives. The findings corroborate with the past studies of Brown and Daicin (1997) and Sen and Bhattacharya (2001, 2004) that were conducted in western countries. In Pakistan awareness is positively associated with the purchase intention of the individual as it was in developed countries. Empirical results show that consumer group with high level of awareness of about CSR activities of a firm have a positive association with the purchase intention. The focus groups that were conducted earlier indicated that the level of awareness among the general population was fairly low and this might interfere with conversion of CSR activities into increased sales.

This study has established the role of trust as a mediating factor between perceived CSR and purchase intention as it was done by a study conducted in China by Tian et al. (2010). It shows that if consumers are able to create a trusting relationship, they reward the company with an improved perception and thus eventually result in greater buying of its products.

Becker-Olsen and Hill (2006) state that "perceived corporate motivation is likely to influence consumers' attitudes toward firms and their social initiatives". Though the act of supporting a social initiative may appear to be a public serving action, consumers' perceptions of the underlying motivations for the act may drive their evaluations of the firm and impact their beliefs, behaviors, and intentions. The findings of the paper establish the fact that consumers are likely to respond based upon their perception about the CSR initiatives. The results imply that Pakistani consumers are concerned about the motives of the firm.

It was initially argued that religion plays a key role in influencing the decision making of individual. However, it was empirically found that the religiosity does not play a mediating role in the relationship between perceived CSR and purchase intention. This helps to provide insight into the fact that the value system of Pakistani society

is influenced by factors other than the religion of Islam. Our empirical research supports the conclusion made by Angelidis and Ibrahim (2004) who found statistically insignificant differences between the ethical behavior of religious and non-religious people. This finding about no impact of religiosity is thus consistent with World Values Survey (2014) which states that in the last three decades the nations have been moving towards a secular-rational value system.

## **6. Managerial Implications**

The paper ascertains that although the concept of CSR is relatively new in Pakistan, there is a segment of consumers who perceive CSR positively. More marketing effort and awareness is needed to ensure that consumers are able to associate CSR campaign with respective products. It became evident in research that consumers in Pakistan currently are not thinking much about CSR when purchasing products. However this is not because of low social responsiveness but rather low awareness and hence efforts have to be made in this direction. The increased awareness would also ensure that the true nature of consumer choice comes to surface and this is an important point for managers to consider.

The socio economic class of A and B could be targeted by managers to achieve a greater share especially in consumer products like electronics where market tends to be highly competitive. The identification of this specialized market segment does provide managers a strategic opportunity to attract these consumers while simultaneously contributing to the society. The results of this paper also indicate that trust is an important mediating factor that has a significant impact on perception. This necessitates marketing managers of CSR campaigns to concentrate upon building trust of consumers while trying to create a positive image of the company. Consumers tend to focus upon the motives of the company while making their decision so the clarity of their motives is essential for companies to create a higher bond of trust with their buying group.

This paper brings out a very crucial point related to marketing strategies in Pakistan. In Pakistan there has been a recent growing trend towards adding religious elements in a company's CSR marketing campaigns to attract religious customers. However the results of this paper clearly indicate that such strategies won't be effective in fulfilling the companies' objectives and so any effort in this direction should be minimized because the resulting return is negligible.

## **7. Limitations and Future Research Directions**

The questionnaire was designed on the pattern of previous studies, which, for the sake of anonymity, do not disclose name of company. However, to understand the implications of CSR on individual consumers, it is important to disclose the name of the company. Disclosure is important because consumer preferences are influenced by brand reputation and choice. A more effective way of conducting future studies would be to disclose the company name and then establish how CSR's impact changes with different brands.

The questionnaire was primarily focused towards an anonymous electronics company. In future, a broad mix of companies could be taken to see the varying impact on consumers. This is because consumer behavior tends to differ among varying product categories and market environments. The research in the paper was focused in the geographical area of Lahore. This city, being a metropolitan city of Pakistan seemed sufficient for our sample but widening the geographical sample could help to further validate the findings.

Evaluating the religiosity of the individual was a difficult task since there is no universal scale to assess religiosity. The variable of religiosity is governed and overarches many factors which cannot be catered totally. However, this was overcome by taking questions from past studies and trying to see the responses of Pakistani consumers in qualitative research before finalizing structured questionnaire. Developing a universal scale will certainly be a great contribution for future research in trying to analyze the impact of religion. This research can contribute to the debate whether religiosity has an influence on ethical buying. No impact of religiosity in a religious society like Pakistan requires further introspection by future researchers.

This study helps to portray the overall situation of CSR in Pakistan from a consumer perspective. The research findings corroborate with previous studies that the purchase intention is positively impacted by perceived CSR which is positively impacted by awareness. It has also been established that religiosity does not play a mediating role in the perceived CSR initiatives by a company. This paper helps to contribute to the study of CSR in developing countries and provides a better understanding of the perspective of consumers in South Asian region.

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### **Appendix: CSR Description for the Household Appliance Industry**

Please READ the information given below prior to filling out the survey:

Company X is a large-scale corporation manufacturing household appliances such as refrigerators and Air-conditioners. Company X is also a pioneer in its active role as a supporter of environmental and charitable movements. Company X was placed on Pakistan's Top 100 Socially Responsible Companies' Index, a ranking released by the Government. Socially responsible companies are those companies that continually try to improve the wellbeing of the society at large e.g. donating in charity organizations.

The index suggested that the reason why Company X is one of the most socially responsible companies in Pakistan is that X:

- (1) Has played an active role in supporting environmental protection projects for many years.
- (2) Has established a generous fund to improve the education and health of poor people.
- (3) During the period of flood disasters in 2010, Company X donated millions of Rupees in aid and sent rescue teams to help people in disaster-hit regions

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