The Missing Link; How Corporate Social Responsibility Increases Market Value

Bachelor Thesis Marketing
Supervisor: Ph.D. Ernst Osinga

2009/2010

ANR   : 888692

Name   : Puck van den Biggelaar

E-mail   : P.vdnBiggelaar@uvt.nl

Subject   : Marketing and firm value

Subject Area : Marketing corporate social responsibility and market value

Study Program: International Business

Abstract

Corporate social responsibility is profitable for a company, but only when the following requirements are met. First the CSR strategy has to be properly motivated, thus the goal of the CSR should not be profit generation. Second the level of trust of customers should be high enough so that customers will not respond skeptical to the CSR strategy. Third the company should be innovative and not be exposed to too much risk. If these requirements are met it is necessary to choose a CSR strategy that fits the brand and to use the right communication strategy. Only then will market value rise as a result of the higher level of customer satisfaction CSR creates.

Table of content

Research Proposal

1.1 The problem background

Since years there exists a growing interest in sustainability. People and businesses have an increasing awareness of the long term effects of their actions and behaviours. Businesses are taking a wider perspective and look beyond profit making and are taking their stakeholders into account. This growing awareness of long term effects, has led companies to implement a corporate social responsibility strategy. Corporate social responsibility is defined as "situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interest of the firm and that which is required by law" (McWilliams and Siegel, 2001).

A good example of a company executing a CSR strategy is Starbucks. They have taken a lot of measures to make sure their activities have "a positive impact on the communities they serve"[1]. In order to successfully execute their CSR strategy Starbucks has separated three areas; ethical sourcing, environmental stewardship and community involvement. An exemplary measure for the community involvement area is the health care program Starbucks has for their partners. Not only their business partners but also their customers know you can 'do business' with Starbucks and have a peaceful mind: no farmers are exploited, employees are paid well, and the coffee is produced with a neutral impact on the environment. These factors are valued by customers and have led to a higher customer satisfaction.

Implementing a CSR strategy has proven to be successful for Starbucks, however not every company is as successful as Starbucks when it comes to CSR. The effect of a CSR strategy on customer satisfaction is researched by various authors (Brønn and Belliu, 2001, Sen and Bhattacharya, 2001). They found that a CSR strategy can have either positive or negative results on customer reactions. Luo and Bhattacharya (2006) showed that the increase (decrease) in customer satisfaction is an indicator that the market value of the company will go up (down). As a result of their study they think that the effect that a CSR strategy has on customer satisfaction and thereby on market value might be dependent on the type of CSR measure taken.

---

[1] http://www.starbucks.com/responsibility

In order to better predict the shift in market value as a result of CSR measures taken, the above mentioned papers should be integrated. However, other factors, besides customer satisfaction, might influence investors. Hence to comprehend the shift in market value as a result of CSR measures, it is necessary to research which (other) factors are deemed important by investors.

1.2 The problem statement

Since the influence of a corporate social responsibility strategy on customer satisfaction and market value is not clear cut, it is necessary to find out how different CSR initiatives influence market value.

What is the effect of different types of corporate social responsibility initiatives on market value and what is the role of customer satisfaction?

1.3 Research questions

In order to answer the problem statement it is helpful to first answer to first answer the following research questions:

1. What different types of CSR can be distinguished by consumers?
   Different CSR measures are distinguished from the customer's point of view since we examine the effect of CSR on customer satisfaction. Afterwards the link between customer satisfaction and market value will be established.
2. How will consumers react to the different types of CSR?
3. Which customer reactions will affect a change in customer satisfaction?
4. In how far will customer satisfaction predict investor reactions?
5. Which criteria do investors use to evaluate CSR and how do they affect market value?

1.4 Academic relevance

CSR is a hot topic and has got the attention of management as well as customers. Despite of this positive stance towards CSR in general, customers and investors still take a critical view towards a company's CSR strategy. It is already researched that investors follow customers in their judgement of the strategy (Bayon et al. 2002)

However, existing research has always focused on customer reactions to CSR strategies as a whole, and not on specific CSR measures. In addition, researchers who focused on other pathways to link CSR and market value report mixed findings.

1.5 Managerial relevance

Since a CSR strategy can influence a company in both negative and positive manner, it is beneficial to know if a planned CSR strategy will yield the expected results. To a manager it might seem like it is always wise to implement a CSR strategy, but as explained before, CSR does not automatically yield positive results, both in terms of customer satisfaction and in terms of market value. So in order to successfully implement a CSR strategy a manager should be able to predict the results of the initiatives he is going to take beforehand.

1.6 Overview of the Rest of the Chapters

In the second chapter the different areas of CSR strategy will be discussed. From this chapter it will become apparent that consumers make a devise in good and bad CSR on the basis of: consumer trust, communication strategy and the fit between CSR policy and the brand identity. The third chapter will deal with customer reactions to the dimensions of consumer trust, communication strategy and the fit between CSR policy and the brand identity. In the fourth chapter the customer reactions will be translated into customer satisfaction in order to be able to deal with investor reactions to customer satisfaction in the fifth chapter. In the fifth chapter different factors, besides customer satisfaction, which trigger a change in market value as a result of CSR policy, will be discussed too. Investors may take into account effects of a CSR strategy that customers find unimportant, such as an increase in costs. In the sixth chapter a discussion on the findings is presented and areas for further research are recommended.

The conceptual model, showing the relationships that will be discussed in this thesis looks like the following (figure 1):

Figure 1: Conceptual framework, how corporate social responsibility influences market value
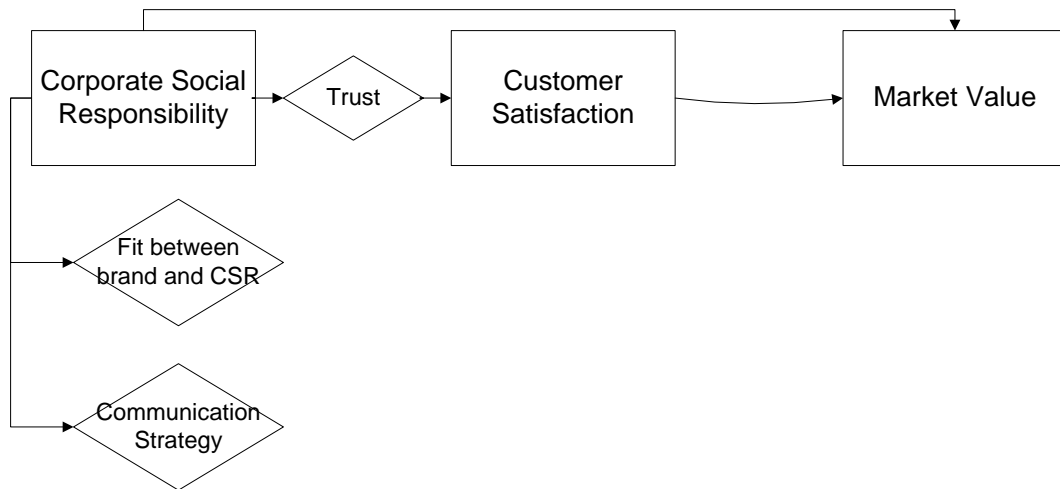
Corporate Social Responsibility from the Consumer Perspective

2.1 Introduction

Much research has been done into the topic of corporate social responsibility and its effects on consumers. This chapter will provide an integration of different CSR activities and strategies. Different papers on CSR and consumers will be discussed. As a result the integration of these papers the first research question, what different types of CSR can be distinguished by consumers, will be answered.

2.2 CSR and customers

In their research on CSR as seen from the firm perspective McWilliams and Siegel (2001) found that customers who are CSR conscious are willing to pay more for a product with an extra social dimension than for an identical product without it. However research done by others (discussed below) indicates that it is not that straightforward and that there are several mediators and moderators to take into account before you can predict consumer behavior.

A more refined way of predicting customer behavior is provided by Du, Bhattachary and Sen (2007). They found that CSR has a positive effect on consumer attitudes. The effect is even stronger when the fit between the brand identity and CSR is high.

Nan and Heo (2007) put some nuances to the story of Du et al. They looked a cause related marketing messages (which is the marketing of CSR) and compared them with 'regular' messages. They found that cause related messages had a more positive effect on consumer reactions towards the advertisement and the brand. Additionally the most positive response was elicited if there was a high fit between the cause and the brand, but such a response could only come from customers who were already highly brand conscious. Customers who were low on brand consciousness did not react different in case of a higher fit. Consumer attitude regarding the company was not affected at all. This led Nan and Heo to the conclusion that if there is a (positive) reaction from the customers, it is only with respect to proximal sources (the message and the brand) and not towards distant sources (the company).

Other studies put even more nuances to the story by stating that CSR can even have negative outcomes. Wagner, Lutz and Weitz (2009) found that when a firm's statements contradict firm behavior consumers' perceived hypocrisy rises. They make a distinction between proactive (when the message precedes the observed behavior) and reactive (when the action precedes the observed behavior) communication strategy. Proactive communication leads to higher perceived hypocrisy than reactive communication. The perceived hypocrisy is a result of inconsistent information and damages consumers' attitudes towards the firm. These findings complement the findings of Nan and Heo, since it appears that negative outcomes of CSR translate into negative stances of consumers towards distant sources. However, positive effects of CSR only influence proximal sources.

Another insight in consumer reactions to CSR strategy is provided by Ellen et al. (2009). They found that consumers distinct between four different company motives to perform CSR. These four motives are: (1) briefly and egoistic, exploiting the cause rather than helping it, (2) strategic, supporting business' goals while helping the cause (3) stakeholder driven, giving is only done because of outside pressure from stakeholders and (4) value giving, which results from benevolence. Strategic and value giving motivations are rewarded with a positive consumer reaction, the other motives elicit negatives consumer reactions. All these reactions influenced purchase intention. Vlachos et al. (2009) expanded this model with the mediator consumer trust. The four different responses to CSR are influenced by consumer trust, which is the mediator in this research. Trust and perceived hypocrisy (mediator in the research of Wagner et al.) can be seen as different ends of the same measure.

Up to this point five theories about the effect of CSR on consumers are discussed, at the end of this chapter an overview is provided of the five theories discussed (table 1).

In addition to the fourth theory, that found communication strategy to be an independent variable influencing consumer reactions, Du et al. (2007) found that CSR positioning is a delicate matter, since it affects long-term relationships with consumers. However when the positioning is done well, it has a threefold effect on the business. First, consumers hold, in general, more positive beliefs, make more

charitable attributions and, as a result, consumers show greater loyalty and advocacy. Second, consumers react more sensitive to CSR brands. If the CSR brand manages to increase consumers' favorable CSR beliefs the rise in loyalty and advocacy for the brand is higher than for its competitors. Third, CSR has a spillover effect to consumer perceptions of corporate ability of other elements such as quality and value. So companies that positioned CSR well can reap additional benefits.

Now different types of CSR can be distinguished from the consumer's perspective. From the discussed papers it follows that consumers review CSR strategy on the basis of three measures. The first is consumer trust, which is found to be a mediator in two of the six models. Second there is the communication (or marketing) on CSR done by the company which is mentioned implicitly and explicitly in the theories discussed above. Communication is explicitly mentioned by Nan and Heo (2007) and Wagner et al. (2009). It is explicitly mentioned by Vlachos et al. (2009) and Ellen and al. (2009) since company motives as perceived of consumers is result of a company's communication efforts on their CSR activities. The third is the fit between the brand and the cause, it is identified as a key component by Du et al. (2007) and Nan and Heo (2007). These three aspects influence consumer attitudes, consumer reactions and consumer spending.

In the next chapter will be discussed in what way fit, trust and communication strategy influence consumer reactions.

Table 1: Summary of different theories on CSR

Consumer Reactions and Attitudes towards Trust, Communication Strategy and Fit

3.1 Introduction

In this chapter an elaboration on the concepts of trust, communication and fit, as found in the previous chapter, will be presented. The different concepts will be discussed separately and at the end of the chapter it will be reviewed whether the concepts influence each other. The outcomes of this chapter will be used in the next chapter to see how they affect customer satisfaction.

3.2 Fit between CSR and brand

Many papers are written about the importance of the fit between brand and CSR. In the previous chapter three of them are already discussed. Du et al. (2007) simply state that a high fit leads to more positive consumer attitudes. Nan and Heo (2007) added brand consciousness as a moderator; only when brand consciousness is high, a high fit between brand and CSR leads to more positive results. These two papers expect only more positive consumer reactions from a higher fit. This view is shared by Du et al. (2007), CSR should be integrated with the brand in order to reap additional benefits (discussed in the previous chapter), in comparison to a non-integrated CSR program.

In contrast to the papers discussed above, Becker-Olsen and Hill (2006) found that a low fit can have a negative impact on brand identity. The negative impact is caused by a violation of consistency. Since consistency is valued by consumers a violation leads to unfavorable responses towards brand image. Becker-Olsen et al. (2006) found that a low fit leads to negative outcomes; additionally they found that even a high fit could lead to a negative outcome, since consumers recognize when CSR is only profit motivated, even when the fit is high. The profit motivation is judged unfavorable by consumers and leads them to negatively adjust their beliefs, attitudes and purchase intentions. This can be linked to the theory of Ellen et al. (2009) since profit motivated giving is the same as briefly and egoistic giving, which is discussed in the previous chapter.

So the fit between brand and CSR can elicit both positive and negative consumer reactions. The most favorable responses are formed when the fit between brand and CSR is high and the CSR strategy is not profit motivated. The customer reactions the fit between brand and cause elicits are in the field of brand image, consumer attitudes, consumer beliefs, brand identity, and purchase intentions.

3.3 Communication strategy

Maignan and Ferrel (2004) concluded that it is necessary to communicate on CSR in order to reap benefits from it. These benefits are needed by business since CSR is the one of the few ways they can differentiate themselves from competitors (Brønn and Vrioni, 2001). However, as was already briefly mentioned, communicating on CSR is tricky business. An important determinant of whether the cause related marketing will have success is how consumers perceive it (Brønn and Vrioni, 2001, Morsing and Schultz, 2006, Mohr et al. 2001).

An important predictor of how consumers will perceive CSR is how skeptical they are (Simcic Brønn and Vrioni, Morsing and Schultz). The more skeptical consumers are, the less positive reactions CSR evokes. CSR can even have a negative effect in this case. Actions that evoke skepticism are communicating too much about it because it seems like you are trying to hide something (Morsing and Schultz, 2006), and not doing as you say (or when actions contradict statements) (Wagner, Lutz and Weitz). When a company with a bad reputation or legitimacy problems turns to CSR, it is perceived with skepticism too (Morsing and Schultz, 2006).

In order to reduce the skepticism, companies should use their communication effectively. It is already discussed that in order to reduce perceived hypocrisy, which evokes skepticism, a proactive communication strategy should not be employed, since it results in higher perceived hypocrisy than a reactive one. An inoculation strategy is the best way to reduce perceived hypocrisy. An inoculation message exists of a moderate degree of negative information and a corresponding refutational defense or justification. Such a message reduces perceived inconsistency by providing additional information and providing cues (Wagner et al. 2009). However when a company has a bad reputation or legitimacy problems, they better do not communicate on CSR since it only increases skepticism.

Despite of the skepticism, Mohr et al. (2001) found that CSR mainly evokes positive consumer reactions, although consumers recognize that there is a self-interest component in CSR for companies. However, Mohr et al. (2001) also found that CSR, for most consumers, is not an important factor when making a buying decision. Only, occasionally consumers make a buying decision based on CSR. There are two underlying reasons why CSR is left out of the purchase decision most of the time: (1) consumers feel that CSR compromises the other important factors that determine buying behavior; price, quality and convenience and (2) consumers have a low level of knowledge of CSR and it is hard for them to obtain information. Consumers indicate that they would like to receive information about a company's CSR systematically.

To sum up, when communicating on CSR, companies should be aware of consumer skepticism. If the CSR is met with skepticism, an inoculation strategy can reduce the damage. Overall CSR evokes positive reactions but these reactions only occasionally translate into increased buying behavior. However consumers indicate that they would like to receive information on CSR systematically. Since a lack of knowledge is one of the two reasons why CSR does not translate into increased buying behavior, more information may lead to more purchases. So there is room for additional benefits from CSR

3.4 Consumer trust and CSR

As already indicated in the previous section, consumer skepticism can reduce benefits from CSR substantially. Trust is a good remedy for skepticism but it serves more purposes. Trust is important when there is information asymmetry between the company and the consumer (Castaldo et al., 2008), which is always the case, since companies have information, consumers do not have. Castaldo et al. (2008) picture a case where a retailer has a Fair Trade product line. When a consumer believes a company will live up to their CSR obligations, they trust the Fair Trade products more. This trust translates into a higher brand loyalty and a willingness to pay premium prices.

Pivato et al. (2008) found another role for trust with regard to CSR. Their research suggested that retailers who conduct corporate social responsible behavior should sell

trust-intensive products. In this way the CSR-retailers can leverage their competitive advantage.

The above mentioned papers found trust to influence buying behavior, brand loyalty and competitive advantage. Vlachos et al. (2009) and Perrini and Minoja (2008) add patronage and recommendation behavior as a result of consumer trust.

In summation, in the previous chapter the mediating role of trust on consumer reactions was explained. This section explains that trust has many positive effects. Also CSR and trust influence each other, so if consumers hold a high level of trust and CSR is performed well, they form a strong duo that pushes the business forward.

3.5 Cross-influences

The fit between brand and CSR, CSR communication and consumer trust are interrelated aspects. If there is no fit between the brand and CSR, but the company communicates on it anyway, it increases perceived hypocrisy and skepticism and thereby lowers trust. This also works the other way around; a high fit leads to congruent statements and actions, this increases trust and yields more positive responses. So a company can reap benefits from CSR when it carefully considers these three aspects, however when CSR is not carefully thought through, the (negative) effects reach very far.

In the next chapter will be discussed how the fit between brand and CSR, CSR communication and consumer trust and CSR and their outcomes influence consumer satisfaction.

Customer Satisfaction

4.1 Introduction

In this chapter the different areas of CSR as distinguished by customers will be related to their influence on customer satisfaction. First the separate areas and their role on customer satisfaction will be discussed. Each area is researched in two ways, the direct relation between, for example, communication and customer satisfaction and the indirect relation, meaning the effect the outcomes of the three areas discussed chapter three on customer satisfaction. After the overall influence of CSR on customer satisfaction will be explained.

There are two types of customer satisfaction; one is customer satisfaction as a result of a single transaction. The other, which is used most in marketing research, measures the consumer's general satisfaction based on all experiences with the firm (Garbarino and Johnson, 1999). This costumer satisfaction is a cumulative construct that sums satisfaction with specific products and services of the firm and satisfaction with various facets of the firm (Czepiel, Rosenberg and Akerele, 1974). This definition of customer satisfaction will be maintained in this paper.

Figure 2: Model of the antecedents and consequences of customer satisfaction, Szymanski and Henard (2001)

In order to clearly establish a link between the three areas of CSR, their outcomes as discussed in chapter three and customer satisfaction, the model (figure 2) of Szymanski and Henard (2001) about the antecedents of customer satisfaction, will be used.

4.2 The direct effect of communication strategy on customer satisfaction

An important antecedent of customer satisfaction is customer expectations. Customers form expectations about the performance level of a product. When the actual performance matches the expected performance, it results in higher customer satisfaction, even when the performance is poor (Szymanski and Henard, 2001).

Communication plays a role in the formation of expectations. Zeithaml, Berry and Parasuraman (1993) developed a scheme with ten variables that can predict customer satisfaction of a service company. Three of those variables are about communication. The first, 'explicit service promises' contains advertising, personal selling, contracts and other communications. The higher the explicit service promises, the higher the expectations. The second, 'implicit services', is about tangibles of the service and the price of the service. Also for implicit services it is found that the higher the implicit service promises the higher the expectations. The third, 'word-of-mouth', is word-of-mouth from personal contacts but also from experts (consumer reports, publicity, consultants, and surrogates). Positive word-of-mouth elicits higher expectations.

So a link is established; communication influences expectations and expectations influence customer satisfaction. However it is not wise to form really high expectations when the product/service can not meet the expectations. Another antecedent of customer satisfaction Szymanski and Henard (2001) find is disconfirmation of expectations. When the actual performance of a product or service matches or exceeds expectations, customer satisfaction increases. If actual performance is below expectations, customer satisfaction decreases. Furthermore when actual performance falls short of expectation the impact on customer satisfaction is bigger than when performance exceeds expectations (Anderson and Sullivan, 1993).

4.3 The indirect effect of communication strategy on customer satisfaction

From the previous chapter it becomes apparent that CSR communication interacts with trust, competitive position, and buying behavior. From the literature it follows that competitive advantage does not influence customer satisfaction, but it is the other way round (Barsky and Labagh, 2006). Buying behavior also is an outcome of customer satisfaction rather than an input (Garbarino and Johnson, 1999; Szymanski and Henard, 2001). The effect of trust on customer satisfaction will be discussed in section 4.6.

4.4 The direct effect of brand fit with CSR on customer satisfaction

The importance of a brand in creating customer satisfaction can be distilled from the previous section. A brand is part of the 'explicit service promises' which create expectations (Zeithaml, Berry and Parasuraman, 1993) and the expectations influence customer satisfaction.

Gupta and Stewart (1996) also found that a brand creates expectations. However they add that not only the brand is important when creating expectations, but expectations are also based on the product or service category and on expectations of an ideal product. Thus brand expectations, category expectations and expectations of an ideal product will be used by costumers while evaluating the performance of a product or service and from the evaluation an increase or decrease in customer satisfaction will follow.

Furthermore Dawar and Lei (2009) find that false brand propositions lead to a decrease in brand evaluation. If the brand and the CSR strategy do not match, it can be perceived as a false proposition. This misfit leads to a decrease in brand evaluation. The decrease in brand evaluation could in turn lead to a decrease in expectations and thereby lower customer satisfaction (Szymanski and Henard, 2001).

4.5 The indirect effect of brand fit with CSR on customer satisfaction

From the previous chapter it was concluded that the fit between brand and CSR has an influence on consumer attitudes, consumer beliefs, purchase intention (buying behavior), brand image and brand identity. In the previous section it was already

mentioned that customer satisfaction influences buying behavior, so buying behavior cannot function as a predictor for customer satisfaction. Brand image and brand identity are similar concepts and an important building block of a brand and are thus already discussed. The relationship between consumer attitudes and beliefs will be discussed in the section; the effects of CSR on customer satisfaction

4.6 The direct effect of consumer trust on customer satisfaction

Balasubramanian et. al (2003) found trust to be the main influence on customer satisfaction in online settings. In an online setting, costumers do not have (physical) cues to base their satisfaction on, so they rely on the trustworthiness of the online company. Trust is formed pre-purchase and is used to form expectations about the performance of the product or service. As discussed in the previous sections, (expected) performance and (dis)confirmation are important variables when predicting customer satisfaction.

Garbarino and Johnson (1999) researched trust, customer satisfaction and consumer commitment as predictors for consumer retention. They found that trust and customer satisfaction have some building blocks in common and are thus relatively similar. These findings can be used to conclude that if trust is high (low), customer satisfaction is also high (low), since they are similar, and thus trust is a good predictor for customer satisfaction.

Singh and Sirdeshmukh (2000) took trust, agency mechanisms and customer satisfaction as variables to predict loyalty. In contrast to Garbarino and Johnson they made a more clear distinction between trust and customer satisfaction. Singh and Sirdeshmukh (2000) designed a model (figure 3) to explain the relationships between trust (pre- and post-purchase), agency mechanisms, customer satisfaction and loyalty.

Figure 3: The proposed framework for interrelationships among trust and agency mechanisms and their influence on satisfaction and loyalty Singh and Sirdeshmukh (2000)
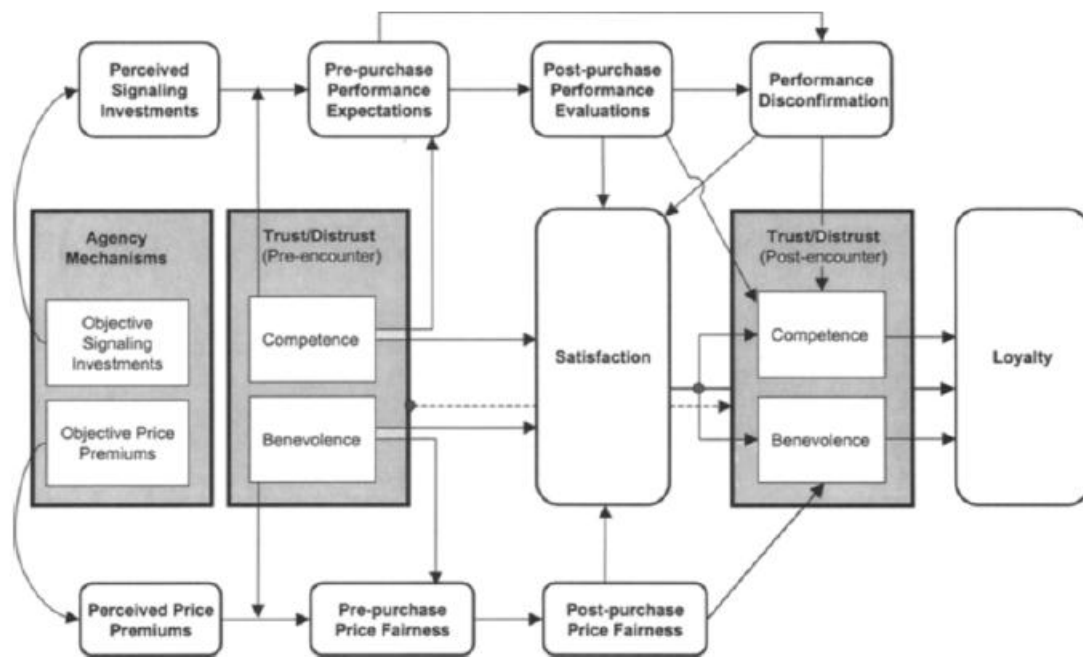
The model explains that pre-purchase trust influence customer satisfaction and customer satisfaction influences post-purchase trust. The mediating roles for performance expectation, performance evaluation and performance disconfirmation are in line with the model of Szymanski and Henard (2001). The effect of expectations, performance and disconfirmation on customer satisfaction is already discussed in section 4.2. The model of Singh and Sirdeshmukh (2000) refines the views of Balasubramanian et. al (2003) and Garbarino and Johnson (1999) by establishing a clearer link between trust and satisfaction and by providing a clearer separation between trust and satisfaction, respectively.

4.7 The indirect effect of consumer trust on customer satisfaction

In the previous chapter it was concluded that trust influences buying behavior, brand loyalty, competitive advantage, and patronage and recommendation behavior. In section 4.3 it is discussed that buying behavior and competitive advantage of the firm are outputs rather than inputs of customer satisfaction. Brand loyalty also is an outcome of customer satisfaction (Bloemer and Kasper, 1995).

Vlachos et al. (2009) and Perrini and Minoja (2008) find patronage and recommendation behavior to be a result of trust. In contrast Szymanski and Henard (2001) find negative worth of mouth behavior, which is the reverse of recommendation behavior to be a result of customer satisfaction. Szymanski and Henard (2001) concluded that negative worth of mouth and customer satisfaction are inversely related. These findings can be linked to the conclusion of Balasubramanian et. al (2003) that customer satisfaction and trust are similar concepts. When this link is established it should be clear that patronage and recommendation behavior are outputs of customer satisfaction, instead of inputs.

4.8 The effect of CSR on customer satisfaction

Luo and Bhattacharya (2006) established a link between CSR and customer satisfaction. They found three streams of research to support the link between CSR and customer satisfaction. The first is that according to both institutional theory (Scott 1987) and stakeholder theory (Maignan et al. 2005) a company's actions (CSR is an example of a company's actions) appeal to the multidimensionality of a customer, not only as an economic being but also as a member of a family, community and country (Handelman and Arnold 1999). In order to describe this 'broader' customer Daub and Ergenzinger (2005) created the term 'generalized customer'. Such a generalized customer is likely to be more satisfied by products and services that appeal to their multi-dimensionality, versus just to their economic needs.

The second reason for viewing customer satisfaction as a result of CSR is that CSR creates a positive context that boosts customers' evaluations of and attitudes towards the firm (Du et al. 2007, Wagner et al. 2009). Specifically customers identify themselves more with the CSR company and have greater support for the CSR company (Lichtenstein et al. 2004). Customers that identify themselves with a company show greater satisfaction towards the firm (Bhattacharya et al. 1995; Bhattacharya and Sen 2003).

The third stream of literature Luo and Bhattacharya use to support the link between CSR and customer satisfaction, looks at the antecedents of customer satisfaction. One of these antecedents is perceived value (Fornell et al. 1996; Mithas et al. 2005b). Since

Luo and Bhattacharya found that CSR increases perceived value, CSR will lead to higher customer satisfaction. In addition, Sen and Bhattacharya (2001) argue that CSR helps a company to understand their customers better. Customer knowledge is another antecedent of customer satisfaction (Jayachandran et al. 2005; Mithas, et al. 2005a). Thus CSR increases customer satisfaction.

4.9 Summation

In summation, consumer trust, the fit between brand and CSR and communication all influence customer satisfaction by setting expectations. These expectations are compared to actual performance which leads to (dis)confirmation, which in turn leads to an adjustment of customer satisfaction.

The indirect effects of consumer trust, the fit between brand and CSR and communication which are found in chapter three, only influence customer satisfaction when they are related to the three main areas: fit (indirect effects on customer satisfaction; brand image and brand identity), trust and communication (indirect effects on customer satisfaction; trust). The other indirect effects; buying behavior, competitive position and brand loyalty are influenced by customer satisfaction, instead of the other way around.

Following the reasoning of Luo and Bhattacharya (2006) it can also be concluded that CSR influences customer satisfaction.

So, it can be concluded that customer satisfaction is a good measure to evaluate the success of CSR. Both CSR as a whole and the sub domains of CSR as viewed by customers have an influence on customer satisfaction. The link between the outcomes (discussed in chapter 3) of the sub domains and CSR are less obvious since sometimes they are an input of customer satisfaction and sometimes an output.

The Effect of Customer Satisfaction on Market Value and Other Effects on Market Value

5.1 Introduction

Now the link between CSR and customer satisfaction is clear, it is time to discuss the final part of the framework and research the relationship between customer satisfaction and market value. In order to provide a complete picture other pathways through which CSR influences market value will be discussed too.

5.2 The effect of customer satisfaction on market value

Ittner and Larcker (1998) found that customer satisfaction has many positive results for the firm. Customer satisfaction increases purchase behavior (retention, revenue and revenue growth), the number of customers and accounting performance (business-unit revenues, profit margins and return on sales). They conclude that customer satisfaction is relevant to the stock market. However, Ittner and Larcker (1998) also found customer behavior and financial performance of the firm to be relatively stable over broad ranges of customer satisfaction and change only after a threshold is reached. Furthermore these changes diminish for high levels of customer satisfaction.

Anderson and Mansi (2009) managed to put a numerical value on customer satisfaction. They found that a high level of customer satisfaction leads to higher credit ratings and lower costs of debt. A high level of customer satisfaction results in a 2% lower costs of debt, which equals savings of $5 million a year. These financial results differ across industries; the difference is a result of the level of risk the industry is exposed to.

Third, Luo and Bhattacharya (2004) found that high customer satisfaction increases market value. They measured stock return and Tobin's Q; the market value of a company divided by the replacement value of the assets[2]. An increase in customer

---

[2] http://www.investopedia.com/terms/q/qratio.asp

satisfaction increases both stock return and Tobin's Q. However the positive impact is reversed when innovativeness is low. This is similar to what Anderson and Mansi (2009) found, since the level of innovativeness differs across industries, so customer satisfaction has different results in different industries.

So it can be concluded that high customer satisfaction increases market value. Furthermore additional internal and external variables to the firm need to be considered since they can reverse the positive effects. These variables are level of risk and innovativeness. Furthermore in order to change market value, it is wise to consider the threshold level at which an increase in customer satisfaction results in an increase in market value.

5.3 Alternative pathways

Other authors who researched the effect of CSR on market value mainly see financial circumstances to influence the relationship between CSR and market value. Cochran and Wood (1984) found that the age of the assets matters. A high age of assets is usually associated with higher CSR spending, because companies need to keep up with newer standards and requirements. However customers look at these older firms as less responsible, so the older firms do not profit from enhanced brand image. When controlling for the age of the assets Cochran and Wood (1984) find CSR to have no impact on market value.

McGuire et al. (1988) found that complying with external pressure and engaging in CSR reduces the risk for lawsuits and fines. A firm that is exposed to high risk should balance these risks with high profits. However McGuire et al. (1988) find that firms with low CSR, and thus high risk, have a low return on assets. Furthermore firms with high CSR have a higher return on assets than firms with low CSR. So CSR results in a higher return on assets with lower risk.

Additionally McWilliams and Siegel (2000) used a different approach in measuring the effect of CSR on market value. They controlled for research and development spending in their investigation and found CSR to have no impact on market value. However they also found that CSR and R&D are highly correlated and firms with

high R&D spending have a higher market value. So, although CSR has no impact on market value directly, firms that have high CSR spending have a higher market value, because of the correlation between CSR and R&D.

In conclusion, customer satisfaction has a positive impact on market value but innovativeness and risk influence the relationship. Furthermore, only after a threshold is reached an increase in customer satisfaction results in an increase in market value. Besides through customer satisfaction, CSR also influences market value through financial measures. Although the findings are somewhat mixed (positive effect or no effect) it can be concluded that firms with high CSR spending perform better financially, except when they have an old-fashioned image.

Discussion, limitations and future research

6.1 Discussion

The purpose of this study is to investigate financial outcomes of corporate social responsibility. Since existing literature already establishes a link between CSR, customer satisfaction and market value, it is decided to review CSR from the customer's point of view. However, the researcher acknowledges there might be alternative pathways linking CSR and market value and therefore these alternative pathways are also discussed.

What is found is that customers use three criteria to evaluate CSR. The first two are building blocks of CSR strategy; communication strategy used by the company and the level of fit between the brand and the CSR strategy. Third, trust plays a mediating role in the formation of customer satisfaction as a result of CSR. An initial high level of trust enables a positive adjustment in customer satisfaction. In addition when implemented and carried out in the right way, CSR increases trust.

The next step is to research which additional effects the fit between the brand and CSR, the communication strategy and trust have. When the fit between brand and CSR is high and the CSR strategy is not profit-motivated brand image, consumer attitudes, consumer beliefs, brand identity, and purchase intentions increase. When the fit is poor these effects will be reversed. Furthermore it is important to implement the right communication strategy, it is best to first carry out the CSR initiatives and then communicate them (reactive communication strategy), if customers respond negatively to CSR an inoculation strategy can repair the damage. In addition, when the level of trust is high, this leads to many favorable responses from customers. Buying behavior, brand loyalty, competitive advantage, patronage and recommendation behavior all increase when trust is high. It is also important to notice that the fit between brand and CSR, the communication strategy and trust are interrelated aspects. In order to reap benefits from CSR it is important to perform well on all three of them.

Now, it is clear how customers react to CSR, it is time to translate customer reactions into customer satisfaction. The model of Szymanski and Henard (2001) is used to do so. It is found that the fit between brand and CSR, communication strategy and trust all influence customer satisfaction. The side effects of these three areas however do not have such a clear link with CSR, since, following the model of Szymanski and Henard (2001), a lot of the side effects we found are an output of CSR rather than an input. Besides through the fit between brand and CSR, communication strategy and trust, the direct link between CSR and customer satisfaction is also researched. From the existing literature it is concluded that CSR has a positive effect on customer satisfaction, but the level of innovativeness of the company and the risk it is exposed to, should be considered. Low innovativeness and high risk lead to negative adjustments in customer satisfaction.

The last step was to establish a link between customer satisfaction and market value. A positive link was expected and various authors (Ittner and Larcker 1998, Anderson and Mansi 2009, Luo and Bhattacharya 2004) support this link. The findings on alternative pathways through which CSR influences market value are somewhat more mixed. Cochran and Wood (1984) find CSR to be correlated with the age of the assets of the firm and McWilliams and Siegel (2000) find CSR to be correlated with research and development. When not controlling for these correlations, CSR has a positive effect on market value, however when controlling for the correlation the effect disappears. McGuire et al. (1988) however do expect a higher return on assets for firms who implement CSR.

In conclusion; corporate social responsibility can be profitable for a company but only when the following requirements are met. First the CSR strategy has to be properly motivated, thus the goal of the CSR should not be profit generation. Second the level of trust of customers should be high enough so that customers will not respond skeptical to the CSR strategy. Third the company should be innovative and not be exposed to too much risk. If these requirements are met it is necessary to choose a CSR strategy that fits the brand and to use the right communication strategy. Only then will market value rise as a result of the higher level of customer satisfaction CSR creates.

6.2 Limitations and future research

Since this paper is only based on existing literature there are no primary empirical data to support the established link. There are some secondary data, which are also discussed in the paper, but since they were not gathered for this research, conclusions deducted from them are prone to error.

In addition, although the conceptual framework is confirmed for the better part, the direct link between CSR and market value remains unclear. The existing literature reports different findings, so it remains difficult to draw any definite conclusions. Furthermore, a number of papers are used to support the conceptual framework. These papers use the same concepts but the underlying understanding may differ a little bit from paper to paper.

Last, although the criteria customers use to evaluate CSR can lead to an adjustment in notions such as purchase behavior, loyalty etcetera, no clear link was established between these outcomes and financial performance, although these can be expected.

So, future research could focus on the financial performance of a company as a result of the indirect effects of CSR. Additionally alternative pathways linking CSR and financial performance require more investigation since current findings are mixed. The model discussed in this paper needs additional empirical evidence. Furthermore, since the financial success of CSR seems to be dependent on the industry a company is in and on the type of company, future research should indicate which industries and which firms can expect increased financial performance from CSR.

References

Anderson, Eugene W. and Sattar A. Mansi (2009), "Does Customer Satisfaction Matter to Investors? Findings from the Bond Market", *Journal of Marketing Research*, vol. 46 (October), 703–14

Anderson, Eugene W. and Mary W. Sullivan (1993), "The Antecedents and Consequences of Customer Satisfaction for Firms", *Marketing Science*, vol. 12, no. 2, 125-43

Balasubramanian, Sridhar, Prabhudev Konana and Nirup M. Menon (2003) "Customer Satisfaction in Virtual Environments: A Study of Online Investing", *Management Science*, vol. 49, no. 7, 871-89

Barsky, Jennifer D. and J. Labagh (2006), Cornell Hotel and Restaurant Administration Quarterly
http://www.cababstractsplus.org/abstracts/Abstract.aspx?AcNo=19931852044

Bayon, Tomás, Jens Geutsche and Hans Baurer (2002), Customer Equity Marketing: Touching the Intangible, European Management Journal, vol. 20, no. 3, 213-22

Becker-Olsen, Karen L., B. Andrew Cudmore, Ronald P. Hill (2006), "The Impact of Perceived Corporate Social Responsibility on Consumer Behavior", *Journal of Business Research*, vol. 59, issue 1, 46-53

Becker-Olsen, Karen L, Ronald P. Hill (2006), "The Impact of Sponsor Fit on Brand Equity: The Case of Nonprofit Service Providers", *Journal of Service Research*, vol. 9, no. 1, 73-84

Bhattacharya, C.B., Hayagreeva Rao and Mary A. Glynn (1995), "Understanding the Bond of Identification: An Investigation of Its Correlates among Art Museum Members", *The Journal of Marketing*, vol. 59, no. 4, 46-57

Bloemer, José M.M. and Hans D.P. Kasper (1995), "The Complex Relationship between Consumer Satisfaction and Brand Loyalty", *Journal of Economy& Psychology*, vol. 16, no. 2, 311-29

Bridges, Claudia M. and Wendy B. Wilhelm (2008), "Going Beyond Green: The "Why and How" of Integrating Sustainability Into the Marketing Curriculum", *Journal of marketing education*, vol. 30 (April), 33-46

Brønn, Peggy S. and Albana B. Vrioni (2001), "Corporate Social Responsibility and Cause Related Marketing: An Overview", *International journal of advertising*, vol. 20, no. 2, 1-15

Castaldo, Sandro, Francesco Perrini, Nicola Misani and Antonio Tencati (2008), "The Missing Link Between Corporate Social Responsibility and Consumer Trust: The Case of Fair Trade Products", *Journal of Business Ethics*, vol. 84, no. 1, 1–15

Cochran, Philip L. and Robert A. Wood (1984) "Corporate Social Responsibility and Financial Performance", *Academy of Management Journal*, vol. 27, no.1, 42-56

Czepiel, John A., Rosenberg L.J., Akerele A. (1974), "Perspectives on Consumer Satisfaction", in *AMA Educators Proceedings*. Chicago: American Marketing Association, 119-23

Daub, Claus-Heinrich and Rudolf Ergenzinger (2005), "Enabling Sustainable Management Through a New Multi-Disciplinary Concept of Customer Satisfaction," *European Journal of Marketing*, vol. 39, no. 9/10, 998–1012

Dawar, Niraj and Jing Lei (2009), "Brand crises: The Roles of Brand Familiarity and Crisis Relevance in Determining the Impact on Brand Evaluations", *Journal of Business Research*, vol. 62, no. 4, 509-16

Du, Shuili, C.B. Bhattacharya and Sankar Sen (2007), "Reaping Relational Rewards from Corporate Social Responsibility: The Role of Competitive Positioning", *International Journal of Research in Marketing*, vol. 24, no. 3, 224 – 41

Fornell, Claes, Micheal D. Johnson, Eugene W. Anderson, Jaesung Cha and Barbara E. Bryant (1996), "The American Customer Satisfaction Index: Description, Findings, and Implications," *Journal of Marketing*, vol. 60 (October), 7–18.

Garbarino, Ellen and Mark S. Johnson (1999), "The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationships", *Journal of Marketing*, vol. 63 (April), 70-87

Guo, Lin, Jing J. Xiao and Chuanyi Tang (2009), "Understanding the Psychological Process Underlying Customer Satisfaction and Retention in a Relational Service", *Journal of Business Research*, vol. 62, no. 11, 1152-159

Gupta, Kamal and David W. Stewart (1996) "Customer Satisfaction and Customer Behavior: the Differential Role of Brand and Category Expectations", *Marketing Letters*, vol. 7, no. 3, 249-63

Handelman, Jay M. and Stephen J. Arnold (1999), "The Role of Marketing Actions with a Social Dimension: Appeals to the Institutional Environment," *Journal of Marketing*, vol. 63 (July), 33–48

Ittner, Cristopher D. and David F. Larcker (1998) "Are Nonfinancial Measures Leading Indicators of Financial Performance? An Analysis of Customer Satisfaction", *Journal of Accounting Research,* vol. 36 (supplement), 1-35

Jayachandran, Satish, Subhash Sharma, Peter Kaufman and Pushkala Raman (2005), "The Role of Relational Information Processes and Technology Use in Customer Relationship Management," *Journal of Marketing*, vol. 69, no. 4, 177–92

Lichtenstein, Donald R., Minette E. Drumwright and Bridgette M. Braig (2004), "The Effect of Corporate Social Responsibility on Customer Donations to Corporate-Supported Nonprofits," *Journal of Marketing*, vol. 68, no. 4, 16–32

Luo, Xueming and C.B. Bhattacharya (2006), "Corporate Social Responsibility, Customer Satisfaction and Marketing", *Journal of Marketing*, vol. 17, no. 4, 1-18

McGuire, Jean B., Alison Sundgren and Thomas Schneeweis (1988) "Corporate Social Responsibility and Firm Financial Performance", *Academy of Management Journal*, vol. 31, no. 4, 854-72

McWilliams, Abagail and Donald Siegel (2000), "Research Notes and Communications Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?", *Strategic Management Journal*, vol. 21, no. 5, 603-09

McWilliams, Abagail and Donald Siegel (2001), "Corporate Social Responsibility a Theory of the Firm Perspective", *Academy of Marketing Review*, vol. 26, no. 1, 117-27

Maignan Isabelle and O.C. Ferrell (2004), "Corporate Social Responsibility and Marketing: An Integrative Framework", *Journal of the academy of marketing science*, vol. 32, no. 1, 3-19

Maignan, Isabelle, O.C. Ferrell, and Linda Ferrell (2005), "A Stakeholder Model for Implementing Social Responsibility in Marketing", *European Journal of Marketing,* vol. 39, no. 9/10, 956–77

Mithas, Sunil, M.S. Krishnan and Claes Fornell (2005a), "Effect of Information Technology Investments on Customer Satisfaction: Theory and Evidence," working paper, Ross School of Business, University of Michigan

Mithas, Sunil, M.S. Krishnan and Claes Fornell (2005b), "Why Do Customer Relationship Management Applications Affect Customer Satisfaction?" *Journal of Marketing*, vol. 69, no. 4, 201–09

Mohr, Lois A., Deborah J. Webb and Katherine E. Harris (2001), "Do Consumers Expect Companies to be Socially Responsible? The Impact of Corporate Social Responsibility on Buying Behaviour", *The Journal of Consumer Affairs*, vol. 25, no. 1, 45-72

Morsing, Mette and Majken Schultz (2006), "Corporate Social Responsibility Communication: Stakeholder Information, Response and Involvement Strategies", *Business Ethics: A European Review*, vol. 15, no. 4, 323-38

Nan, Xialio and Kwangjun Heo (2007), "Consumer Responses to Corporate Social Responsibility (CSR) Initiatives", *Journal of Advertising*, vol. 36, no. 2, 63-74

Perrini, Francesco and Mario Minoja (2008), "Strategizing Corporate Social Responsibility: Evidence from an Italian Medium-Sized, Family-Owned Company", *Business Ethics: A European Review*, vol. 17, no. 1, 47-63

Pivato, Sergio, Nicola Misani and Antonio Tencatin (2008), "The Impact of Corporate Social Responsibility on Consumer Trust: The Case of Organic Food", *Business Ethics: A European Review*, vol. 17, no. 1, 3-12

Scholder, Ellen P., Deborah J. Webb and Lois A. Mohr (2006), "Building Corporate Associations: Consumer Attributions for Corporate Socially Responsible Programs", *Journal of the Academy of Marketing Science*, vol. 34, no. 2, 147-57

Scott, W. Richard (1987), "The Adolescence of Institutional Theory," *Administrative Science Quarterly*, vol. 32, no. 4, 493–511

Sen, Sankar. and C.B. Bhattycharya (2001), "Does Doing Good Always Lead to Doing Better? Consumer Reactions to Corporate Social Responsibility", *Journal of marketing research*, vol. 38, no. 2, 225-43

Szymanski, David M. And David H. Henard (2001), "Consumer Satisfaction: A Meta-Analysis of the Empirical Evidence", *Journal of the Academy of Marketing Science*, vol. 29, no. 1, 16-35

Vlachos, Pavlos A., Argiris Tsamakos, Adam P. Vrechopoulos and Panagiotis K. Avramidis (2009), "Corporate Social Responsibility: Attributions, Loyalty, and the Mediating Role of Trust", *Journal of the Academy of Marketing Science*, vol. 37, no. 2, 170-80

Wagner Tillmann, Richard J. Lutz and Barton A. Weitz (2009), "Corporate Hypocrisy: Overcoming the Threat of Inconsistent Corporate Social Responsibility Perceptions", *Journal of Marketing*, vol. 73, no. 6, 77-91

Zeithaml Valarie A., Leonard L. Berry and A. Parasuraman (1993), "The Nature and Determinants of Customer Expectations of Service", *Journal of the Academy of Marketing Science*, vol. 21, no. 1, 1-12