The Influence of Corporate Social Responsibility on Peruvian Consumers Purchasing Behavior

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This research examines the relationship among corporate associations, corporate social responsibility and corporate ability, on Peruvian consumers’ behavior. In an attempt to measure customer behavior in terms of their intent to purchase and establish how much customers are willing to pay for specific social features, a discrete choice modeling experiment and binary logit model is used with a lab setting. The findings provide empirical validation of the positive relationship between corporate social responsibility and Peruvian consumers’ behavior in the purchasing of athletic shoes in Lima, Perú. The results demonstrate that the effects of corporate social responsibility are much stronger than that of corporate ability.

Introduction

Many surveys developed at an international level suggest that a positive relationship exists between a company’s CSR actions and consumers’ reaction to that company and its product (Bhattacharya and Sen 2004). In addition, a growing body of academic research attests to the generally positive influence of CSR on consumers’ company evaluations and product purchase intentions (Brown and Dacin 1997, Ellen, Webb, and Mohr 2006), specifically consumers’ positive product and brand valuations, brand choice, and brand recommendations. There are also researches on how the motives of CSR influence consumers’ perceptions, showing that specifically the values-driven attributions positively influence the perceived reciprocity (Kim and Park 2009). However, other investigations demonstrate that the relationship between a company’s CSR actions and consumers’ reaction is not always direct and evident and establish numerous factors that affect whether a firm’s CSR activities translate into consumer purchase (Maigman and Ferrell 2004, Mohr, Webb, and Harris 2001).

Although many researchers studied the relationship between company’s CSR actions and consumer attitudes towards a company and product purchase intentions in developed countries (Aquveque 2005, Auger et al. 2007, Bhattacharya and Sen 2004, Marin and Ruiz 2007), a lack of empirical research on this relationship in developing countries is apparent. Despite the increase of CSR consumption in today’s worldwide environment, no researches or documented empirical research have been conducted in Perú on this topic.

Theoretical Framework

A quantitative research, that is cross-sectional, and that includes experimental survey techniques to collect data was attempted. The dependent variable for the study is consumer social responsibility (CnSR), and the independent variables are CSR and corporate ability (CA). The model adapted from Gupta (2002) (see Figure 1) represents the hypotheses that CSR and CA influence CnSR, and CnSR is a predictor for behavioral response. This affects the positive willingness to purchase and willingness to pay attitudes.

Figure 1. Impact of corporate social responsibility and corporate ability on consumer social responsibility.

Note. Adapted from “Strategic Dimensions of Corporate Image: Corporate Ability and CSR as Sources of Competitive Advantage via Differentiation,” by S. Gupta, 2000, Dissertation Abstracts, 94. (UMI No. 30570736). Copyright 2002 by Proquest Information and Learning Company.

Delimitations

The study confined itself to surveying consumers in Lima, Perú. They were offered two alternative brands of athletic shoes at a time and were asked to choose one of them. The focus of the study included price; different levels of functional attributes (CA features): leadership in the industry, quality of products, technological innovation; and different levels of social attributes (CSR features): company’s environmental commitment, corporate giving to worthy causes, and labour practices in order to force consumers to make trade-offs, and allowing for the measurement of the trade-offs they made.

Literature Review

Independent Variable: Corporate Social Responsibility

Lantos (2001) synthesized the companies’ responsibilities suggested by Carroll (1991) in four kinds: economic, legal, ethical and philanthropic (or altruistic or humanitarian). The emergence and evolution of the principles of sustainable development have had an important impact on the concept of CSR, resulting in two significant contributions to the construct: incorporating the environmental variable as one of the main social expectations to be covered and considering sustainability. Essentially, organizations must satisfy not only the expectations of current society but also those of future generations.

Between the 1980s and 1990s, the stakeholder theory contributed significantly to the development of CSR. This theory
proposes that a firm is a nexus of contracts between stakeholders and that the responsibility of a business is not to society at large but to legitimate stakeholders: shareholders, employees, customers, suppliers, and local communities (Van der Putten, 2005). Also, three dimensions of sustainability were included in the concept of CSR: social, environmental and economic assessment. Many corporations began systematically to study and report on their own practices. The comparability and the credibility of such reporting were enhanced by the emergence of standards of independent organizations such as International Organization for Standardization 14000 (ISO 14000), Social Accountability 8000 (SA 8000), and the GRI. ISO 14000, launched in 1992, is a series of environmental management standards, developed by the International Organization for Standardization, which provide a guideline for organizations that need to systematize and improve their environmental management efforts.

In summary, eight dimensions together constitute CSR research: ethical values, profits, environment, social expectations or demands, action-oriented managerial strategy, stakeholders, sustainability, and social audits and accountability. Consequently, the following comprehensive definition for use in the proposed research borrows and integrates elements from these different areas and approaches: CSR involves running a business with an action-oriented managerial strategy under a comprehensive set of policies, practices, and programs integrated throughout the business operations, always respecting the rule of law and international norms of behaviour.

**Independent Variable: Corporate Ability**

A number of researchers have investigated the degree to which consumers’ associations regarding a company influence them (Berens 2004, Berens, Van Riel and Van Bruggen 2005, Brown and Dacin 1997). In their seminal work, Brown and Dacin (1997, p.69) defined corporate associations as “a generic label for all the information about a company that a person holds”.

Furthermore, Berens (2004, p.17) defined corporate associations as “a heterogeneous set of perceptions, which may relate to a wide variety of aspects of a company”. Berens et al. (2005) remarked that perceptions of individual people, rather than groups of people, define corporate associations. In addition, corporate associations are regarded as a set of perceptions, which may or may not be related to one another, rather than as a holistic picture. Also, corporate associations are a heterogeneous set of perceptions, which may be related to a wide variety of aspects of a company. Berens (2004) stated that in terms of the social role typology, two specific types of corporate associations exist: CA and CSR associations. The CA association, as defined by Brown and Dacin (1997, p.68), is “the company’s expertise in producing and delivering products and services, and CSR as the organization’s status and activities with respect to its perceived societal objectives”. Berens (2004, p.56) explained that these associations are “both abstract dimensions that may summarize a number of different attributes of a company”. Therefore, as Gupta (2002) observed, CA may refer to manufacturing expertise, product quality, a company’s customer orientation, firm innovativeness, research and development, employee expertise, and after-sales service.

**Dependent Variable: Consumer Social Responsibility**

Devinney, Auger, et al. (2006, p.32) proposed a new concept highlighting the important role that CSR plays in consumer behavior, CnSR: “The conscious and deliberate choice to make certain consumption choices based on personal and moral beliefs”. Conversely, recent investigations demonstrate that the relationship between CSR and consumer social responsibility is not always direct and evident; Mohr et al. (2001) concluded that consumers’ beliefs about the virtues of CSR are often inconsistent with their buying behavior and that a company’s reputation for social responsibility is not usually the most important factor in the consumer’s purchase decision. The results are in many cases contradictory and establish numerous factors that affect whether a firm’s CSR activities translate into consumer purchase. They include tradeoffs with traditional criteria like price, quality, and convenience and lack of information; corporate brand dominance; and the type of CSR, quality of products, consumers’ personal support for the CSR issues, and their general beliefs about CSR. The contradictory consumer responses found in the literature encourage exploration of whether CSR company actions matter to consumers; whether consumers are socially responsible; and when forced to make tradeoffs, a higher price for example, whether consumers will still buy the product.

**Methodology**

This study attempted to assess the influence of CSR product features on the Peruvian consumer buying behavior by designing and implementing an experiment that involved using discrete choice modeling (DCM) with a lab setting (Adamowicz et al. 1998, Hensher et al. 2005, Lancsar 2002 Louviere et al. 2004). This method allows the researcher to probe whether beliefs and behaviors are connected. As Auger and Devinney (2007, p.2) suggested, this methodology forces “consumers to trade-off product attributes (including ethical attributes) against one another, which leads to more reliable estimates of relative valuation (or utility) than would be the case were such constraints on choice not imposed”.

**Discrete Choice Modeling (DCM)**

DCM is based on a probabilistic choice theory named random utility theory (McFadden 2001) and is consistent with neoclassical economics. When the perceived stimuli are interpreted as levels of satisfaction, or utility, this can be understood as a model for economic choice in which the individual chooses the option yielding the greatest realization of utility (Louviere 2001).

Researchers can use a consumer response to estimate a model of choice behavior that allows estimation of separate marginal values for each attribute of total values for any particular collection on attribute levels. Researchers can also estimate the marginal rate of substitution, or trade-offs, respondents are willing to make between any two attributes (Kamien 2002).

The DCM takes a causal perspective to understand the behavioral process that leads to the agent’s choice. Researchers can observe some of the factors that determine the agent’s choice and cannot observe others (ε). Those factors are related to the agent’s choice through the function \( y = h (x, \varepsilon) \). The unobserved terms are considered random with density \( f (\varepsilon) \). The utility consists of a part that will be observed (β′x) and a part that will not be observed (ε), \( U = \beta' x + \varepsilon \), where \( x \) is a vector of variables and \( \beta \)
is a vector of parameters. It was assumed that the person would buy the products (that maximize his utility) only if the utility is positive. According to the assumption that each choice is independent of the others (i.e., independent and identically distributed, and unobserved factors are uncorrelated over alternatives and have the same variance for all alternatives), a binary logit discrete choice model was used.

Experiment's design
In this study, a binary discrete choice experiment was developed, where the respondents were asked a series of hypothetical choice questions. The major research question was the following: Does CSR influence consumer purchasing behavior in Lima, Peru?

The following minor research questions were addressed:
1. Is there a significant relationship between CnSR behavior and CSR in Lima, Peru?
2. Is there a significant relationship between CnSR behavior and CA in Lima, Peru?

The previous research questions constituted the basis for establishing the following hypotheses for this study that intends to measure the effect of CSR on the CnSR behavior of consumers in Lima, Peru:
1. There is not a significant relationship between CnSR and CSR in Lima, Peru.
2. There is not a significant relationship between CnSR and CA in Lima, Peru.

Each experiment included a description of two sets of alternatives, with different functional (CA) and social (CSR) attributes, and the respondents would state which they would buy. The proposed alternatives in each choice are all different in terms of the goods described to the respondents. The variations across the alternatives in the choice sets are achieved by assigning different levels of the attributes, according to the experimental design, and the sequence of choices by each respondent will be observed.

The process used in generating and setting the discrete choice experiment followed the steps proposed by Verma, Iqbal, and Plaschka (2004):
(a) Identification of determinant attributes: According to Hensher, Rose and Greene (2005) it was necessary to build a set of attributes as small as possible to make the experiment tractable but realistic. Therefore, the number of attributes of CSR and CA to be included in the survey had to be scaled down to reasonable number that consumers could handle and understand. To keep the study relatively less complex, the number of attributes and the number of choice tasks would be reduced.

The preliminary list of attributes and levels associated with CnSR were identified from previous studies founded in the international literature (Bhattacharya & Sen, 2003; Berens, 2004; Brown, Dacin, Pratt, & Whetten, 2006; Dacin & Brown, 2006; Marin & Ruiz, 2007; Mohr & Webb, 2005) and from a recent local research (Alcedo, Torres, & Wong, 2008). This framework was then presented to an experts' panel, which were consulted for the complementation of the attributes obtained from the literature review. This panel included four business school professors, a local high level executive from the athletic shoes’ industry, and a representative from the ISO 26000 (international standard providing guidelines for social responsibility) Peruvian Committee. Finally, the resultant list of functional attributes for the CA and CSR was (1) leadership in the industry, (2) quality of the products, (3) technological innovation, (4) company’s environmental commitment; (5) corporate giving to worthy causes, and (6) labour practices. Additionally a (7) price attribute was included in order to capture the willingness to pay (WTP) for each attribute.

(b) Specification of Attribute Levels: Attribute ranges often are chosen to represent actual values observed in the marketplace. At the same time this range should also be small enough to keep the experiment to a realistic and practical size, so as not to overwhelm the respondents with too many scenarios from which to choose. Therefore a main effects study was developed. Additionally an end-point design (Louviere, Hensher, and Swait, 2004) was applied utilizing the attribute levels at the extremes only. That is, each attribute would have only two attributes levels. Both at the two extremes of the attribute level range. In this study two attributes levels were selected for each of the seven attributes described earlier. These two levels are sufficient to estimate the linear effects of the attributes on choice, and reflect the upper and lower extreme for each attribute. In the case of price the two labels represent 10% upper and 10% lower the average retail price of the product.

(c) Experimental Design: The statistical technique of the fractional factorial design was used to reduce the number of choice options presented to each respondent. This design aspect involves planning the experiment to rule out as many other influences as possible and to permit the best inference from the data. Therefore, the design is important because it influences how much information can be extracted.

Sampling Frame
When establishing the sample, it was considered that discrete-choice responses are categorical; therefore, “several hundred observations are needed to satisfy the asymptotic conditions specified for estimating the model’s parameters and obtaining reliable statistical tests” (Verma, Plaschka and Louviere 2002, p. 19). However, the total number of respondents should not be so many in this study because each participant will receive 16 choice scenarios. Each respondent will be shown 16 choice sets as part of the experiment; thus, the minimum total number of individuals would be 96 (i.e., 1,536 / 16). However, as six rotations of each choice set was developed to avoid any bias due to the order in which the attributes are presented, a random stratified sample of 120 people was finally used ranked by socioeconomic level (SEL).

Results
Table 1. Individual Model parameters

<table>
<thead>
<tr>
<th>Variables</th>
<th>Parameter</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s environmental commitment</td>
<td>0.713*</td>
<td>0.070</td>
</tr>
<tr>
<td>Corporate giving to worthy causes</td>
<td>0.646*</td>
<td>0.070</td>
</tr>
<tr>
<td>Good labour practices</td>
<td>0.652*</td>
<td>0.070</td>
</tr>
<tr>
<td>Price</td>
<td>-0.474*</td>
<td>0.070</td>
</tr>
<tr>
<td>Leadership in the industry</td>
<td>0.305*</td>
<td>0.070</td>
</tr>
</tbody>
</table>
The table shows the results of the estimated random utility model, presented with the errors of the robust estimates, where all the parameters of the CSR and CA attributes are significant with a p < 0.05 value, which shows that consumers from Lima, Perú are sensitive to these attributes in their buying decisions. To test the significance of the model as a whole a likelihood ratio test was developed as recommended by Louviere, Hensher and Swait (2004). The model is significant at the p<0.01.

Consumers do not show the same level of preference for the various aspects of CSR in terms of CA attributes quality of products if by far preferred over technological innovation, which is greater than leadership in the industry. In general, the whole set of CSR attributes produce the bigger contribution to consumers’ utility of athletic shoes in Lima.

One of the most useful features of the choice experiment methodology is its ability to convert the probability of consideration and purchase directly into conditional monetary equivalents, its mean willingness to pay estimates. The relative weights of each one of the attributes (β) were used to calculate customers’ willingness to pay for a specific attributes offering. As price in this experiment is a discrete variable, the delta of the price levels (S/. 40) has been considered the monetary unit for purposes of calculating WTP, according with Louviere et al. (2004, p. 280).

By comparing the monetary value of specific bundles of product features it is then possible to determine the monetary equivalent of the utility that a consumer gets from the addition or absence of a specific feature. The results showed that respondents from the sample were willing to pay a greater portion of the purchase price for ethical features relative to functional features, with the only exception of quality of products. In fact, three of the CSR features, company’s environmental commitment, good labour practices and corporate giving to worthy causes, have a WTP estimate that is close to duplicating the WTP estimate for functional attributes such as leadership in the industry and technological innovation. The results show that consumers of the sample value tend to focus on the company’s environmental commitment attribute as the most salient factor defining CSR.

Conclusions

This research indicates that consumers were sensitive to the definition of the attributes of CSR and CA in their purchase decision of athletic shoes. This constructs and variables have captured the major sources of variability in choice behavior by the set of attributes in the observed component of the utility expression. The signs of all CSR and CA attributes are positive, which means that the probability of selecting an athletic shoe increases if it offers company’s environmental commitment, good labour practices, corporate giving to worthy causes, quality of products, technological innovation, and leadership in the industry.

The study indicates that consumers do not show the same level of preference for the various aspects of CSR. It can be seen that the CSR attribute that contributes most to an individual’s utility is company’s environmental commitment, which is greater than corporate giving to worthy causes, which is preferred over good labour practices. In terms of CA attributes quality of products is by far preferred over technological innovation, which is greater than leadership in the industry. The whole set of CSR attributes produce the bigger contribution to consumers’ utility of athletic shoes. The CSR effects are more important than CA effects, and both are higher than the main effect of Price. In other words, CSR as a whole is the single most important feature driving customer choices.

Implications

The pattern of findings highlights the influential role of CSR or ethical criteria in buying behavior, even in developing countries. Despite the facts that these findings are based only in athletic shoes, and that some studies tend to say the contrary (Brown and Dacin, 1997, Mohr et al., 2001, Berens et al., 2005), the results are not entirely unexpected given the theoretical and empirical literature in developed countries suggesting that CSR is critical in actual consumer behavior. (Auger, Burke, Devinney, and Louviere, 2003; Bhattacharya and Sen, 2004; Ellen, Webb, and Mohr, 2006; Uusitalo and Oksanen, 2004; Marin and Ruiz, 2007) Which means that the Peruvian companies will find in the development of its external and internal activities of CSR, not only the moral gratification to comply with an ethical imperative, but also the possibility of adding value to their organizations through the generation of competitive advantage through the differentiation of their products. The results evidenced that the business case of CSR in Perú may include enhanced brand value and reputation, and improved financial performance through a higher willingness to pay. The results also show that the profit maximization approach is not necessarily in conflict with a better social return investment.

References


