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Corporate social responsibilities, consumer trust and corporate reputation: South Korean consumers' perspectives ☆

Jongchul Park [a], Hanjoon Lee [b,*], Chankon Kim [c]

[a] Chosun University, Division of Business, 375 Seosuk-dong, Dong-gu, Gwangju, Republic of Korea
[b] Hanyang University, School of Business, 17 Haengdang-dong, Seongdong-gu, Seoul, Republic of Korea
[c] Saint Mary's University, Sobey School of Business, Halifax, Nova Scotia, B3H 3C3, Canada

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ABSTRACT

This study proposes and tests a model of corporate social responsibility (CSR) that specifies relationships among (1) four categories of CSR initiatives as independent variables, (2) three types of consumer trust as mediating variables, and (3) corporate reputation as the dependent variable. Results show that the firm's fulfillment of economic and legal CSR initiatives had a direct positive effect on corporate reputation, whereas neither ethical nor philanthropic CSR initiatives did. In the CSR-trust link, economic performances fostered consumer expertise trust, legal and ethical CSR activities affected integrity trust, and philanthropic CSR activities influenced social benevolence trust in the firm. This study confirms that all three types of trust partially or fully mediate the effect of the four CSR initiatives on corporate reputation. This outcome indicates that CSR activities create and nurture consumers' trust in the company, which will, in turn, bring about consumers' positive or improved perceptions of the firm.

1. Introduction

A company is expected to articulate its values and prioritize its actions in such a way as to better meet the legitimate, economic, environmental, and social demands of society. In response, modern corporations not only accept corporate social responsibility (CSR) but also use CSR initiatives as important management tools (Bielak, Bonini, & Oppenheim, 2007). Given this trend in corporate CSR practices, the topic of CSR has generated academic research interests from management (Carroll, 1999; McWilliams & Siegel, 2001) and marketing (Brown & Dacin, 1997; Maignan & Ferrell, 2001; Sen & Bhattacharya, 2001). One research stream investigates the link between CSR and the firm's financial performance (Luo & Bhattacharya, 2006; McWilliams & Siegel, 2001). The findings from this research are largely mixed, and do not support either the presence or absence of a significant relationship. In another research stream, CSR is an essential element in building and maintaining a favorable corporate reputation which is regarded as an important strategic resource factoring into a company's competitive advantage (Keh & Xie, 2009). A firm's CSR practices positively affect consumer's attitude toward the corporation (Brown & Dacin, 1997; Sen & Bhattacharya, 2001). This study belongs to the latter stream.

A limiting feature of the past CSR research in this area was the frequent conceptualization and measurement of CSR that involved a single aspect of CSR such as community involvement, fairness of employment, or business ethicality. A more desirable approach would be to take a more comprehensive perspective on CSR by incorporating a wide range of social demands in investigating the impact of CSR on consumers' corporate evaluations. Furthermore, past CSR studies were largely concerned with establishing an unconditional direct effect of CSR initiatives on company evaluations, paying little attention to the factors that may provide explanations for such effects. Trust is considered one of these factors with consumer satisfaction (Luo & Bhattacharya, 2006) and congruence between the consumer's characteristics and those of the corporation (Sen & Bhattacharya, 2001) that mediates the link between CSR initiatives and corporate evaluations (Castaldo, Perrini, Misani, & Tencati, 2009; Pivato, Misani, & Tencati, 2008).

Implementations of CSR initiatives help nurture consumers' trust in the corporation and its products (Castaldo et al., 2009). Consumers' trust, in turn, helps the corporation maintain favorable relationships with consumers (Morgan & Hunt, 1994; Sirdeshmukh, Singh, & Sabol, 2002). Despite the potential role of the construct envisaged, only a few studies have examined the role of trust within CSR research, and the ones that have (Castaldo et al., 2009; Pivato et al., 2008; Valchos, Tsamakos, Vrechopoulos, Adam, & Avramidis, 2009) treated trust as a unidimensional global construct. This approach is not satisfactory given the prevailing multidimensional view of the concept (Mayer, Davis, & Schoorman, 1995; McKnight, Choudhury,

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* Corresponding author.
E-mail addresses: pjc4887@chosun.ac.kr (J. Park), hanjoon222@hanyang.ac.kr (H. Lee), chankon.kim@smu.ca (C. Kim).

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& Kacmar, 2002; Sirdeshmukh et al., 2002). To address some of these inadequacies in past CSR research concerning the conceptualization and measurement of CSR and consumer trust, this study proposes and tests an integrative model that incorporates the relationships among multiple categories of CSR initiatives, multiple facets of consumer trust, and corporate reputation. From a strategic management perspective, corporate CSR decisions need to be considered as "investment decisions" (McWilliams & Siegel, 2001, p. 125). For a corporation to make proper strategic resource-allocation decisions for various CSR initiatives, it is necessary to envisage the effect of each CSR initiative on its reputation as well as the ways in which different facets of consumer trust may be influenced by different CSR initiatives and how they consequently affect the corporate reputation.

2. Theoretical foundation and research hypotheses

To ensure survival and prosperity, a firm must integrate society's interests in its corporate activities. CSR refers to the corporate obligations to society or, more specifically, the corporations' stakeholders (Brown & Dacin, 1997; Sen & Bhattacharya, 2001). Carroll (1999) delineated four categories of social obligations that a responsible corporate citizen would seek to meet. These include economic, legal, ethical, and philanthropic responsibilities. Economic responsibilities include the obligation of satisfying consumers with products of good value, as well as generating sufficient profits for investors. Legal responsibilities require firms to obey laws and comply with regulations while fulfilling their economic obligations. Ethical responsibilities refer to the kinds of behaviors and ethical norms that business is expected to follow even though they have not been codified into law. And, lastly, philanthropic responsibilities encompass financial and non-financial contributions to particular causes for the "betterment of society."

2.1. CSR and company reputation

Corporations conduct CSR to improve society's wellbeing and to build and enhance their reputation (Brown & Dacin, 1997; Sen & Bhattacharya, 2001). Corporate reputation refers to the extent to which a corporation is held in high esteem in consumers' eyes (Weiss, Anderson, & MacInnis, 1999). Consumers develop a sense of esteem or disdain toward a corporation based on direct experiences with its products and/or reputation-related information that comes to their attention. Corporate reputation is the end result of consumers' accumulation of perceptions regarding how well an organization met their demands and expectations (Abratt & Kleyn, 2012).

Corporate reputation represents an intangible asset for a corporation. A firm's overall reputation can impact its financial performance, directly or indirectly (Rose & Thomsen, 2004). At the same time, the reverse may hold true: The firm's financial performance can influence its overall reputation. So, can the firm's reputation be influenced by non-economic factors, such as making positive contributions to the betterment of society and the environment (Walsh, Mitchell, Jackson, & Beatty, 2009)? Porter and Kramer (2002) stated that the fulfillment of economic and/or non-economic corporate social responsibilities can be a strategic device for corporate reputation building.

Economic responsibilities and reputation: Society expects corporations to satisfy their consumers with quality products and generate sufficient profits for their investors. Fulfillment of the economic responsibilities enhances corporate reputation (Fombrun, 1996). Brown and Dacin (1997) showed that the company's ability in manufacturing and delivering its product (i.e., corporate ability) is a determinant of corporate reputation. In other studies, both service quality and product quality were found to have a positive influence on corporate reputation (Walsh & Beatty, 2007; Wang, Lo, & Hui, 2003). On the other hand, product recalls due to quality problems and public complaints about a product adversely influenced corporation reputation (Grunwald & Bernd, 2010).

Legal responsibilities and reputation: Businesses must fulfill their economic mission within the legal framework. For a century, people witnessed a series of scandals committed by corporations, such as Enron, and Arthur Anderson. These corporate wrongdoings resulted in the death of once prominent corporations. It is unequivocal that illegal corporate behaviors negatively influence consumers' attitudes towards a company (Elkins, 1976). Baucus and Baucus (1997) found that when corporations were convicted of illegal acts, their sales growth became significantly lower than those of unconvicted ones. In another study, a significant deterioration of corporate reputation was observed as the total number of citations due to violations of either occupational safety and health or environment related regulations (Williams & Barrett, 2000). There is little dispute that corporate wrongdoings can deliver serious impact on corporate reputation.

Ethical responsibilities and reputation: Ethical responsibilities go beyond fulfilling a firm's legal obligations. The aims of a firm in meeting its ethical responsibilities are to ensure that its actions do not harm individuals or the public at large; that it does what is right, just, and fair (Smith & Quelch, 1993). There is evidence that consumer perceptions of the firm's ethical activities have a positive impact on corporate reputation (Bendixen & Abratt, 2007). The public's interest in ethical business practices is underscored by Creyer and Ross's (1997) finding that consumers are willing to reward an ethical firm by paying higher prices for the firm's products. In supplier and buyer relationships, Bendixen and Abratt (2007) found that the reputation of suppliers is affected by the buyer's perceptions regarding suppliers' ethical behaviors in terms of the extent to which they adhere to the code of ethics.

Philanthropic responsibilities and reputation: Firms exercise their philanthropic responsibility by contributing financial and/or non-financial resources to humanitarian causes. These activities are voluntary. However, society expects good corporate citizens to be involved in these altruistic activities as a way of giving back to society. Williams and Barrett (2000) showed that a company's philanthropic activities had a positive effect on its reputation. A similar result was obtained from the 'Britain's most admired companies' survey data (Brammer & Millington, 2005). There is much evidence in marketing that philanthropic activities enhance consumers' attitudes toward the corporation, thereby strengthening its competitive advantage (Brown & Dacin, 1997; Sen & Bhattacharya, 2001; Yoon, Zeynep, & Schwarz, 2006).

Based on this discussion, we developed the followed hypotheses. H1: A company's economic responsibility activities positively affect its corporate reputation. H2: A company's legal responsibility activities positively affect its corporate reputation. H3: A company's ethical responsibility activities positively affect its corporate reputation. H4: A company's philanthropic responsibility activities positively affect its corporate reputation.

2.2. CSR and consumer trust

Consumer trust is the subject of considerable efforts to define it. For Barber (1983) trust is a set of "socially learned and socially confirmed expectations" (p. 164) that people have of other people or organizational entities. Trust develops as a result of a firm belief that the trustee is reliable, honest and benevolent (McKnight et al., 2002; Morgan & Hunt, 1994). Trust is defined from a consumer perspective as the consumer's belief that a corporation will perform in a manner consistent with expectations regarding its expertise, integrity, and goodwill.

Trust is viewed as multidimensional (Barber, 1983; Mayer et al., 1995), although it has been conceptualized and/or operationalized as a global unidimensional construct (Castaldo et al., 2009; Pivato et al., 2008). We adopt the three-dimensional representation proposed