



## Corporate social responsibility: Findings from the Chinese hospitality industry



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### ABSTRACT

The study investigates the impact of corporate social responsibility (CSR) on consumers' attitudinal and behavioral responses, factors closely related to a firm's social and economic performance, using data from 451 customers of three hotels. We also test the universality of such impact across various consumer groups. Results show that CSR positively affects perceived corporate reputation and customer satisfaction, which in turn, significantly affect customer commitment and behavioral responses (i.e., loyalty intentions and word-of-mouth). Perhaps more importantly, the role of CSR is not universal across consumer groups. Particularly, consumer income seems to moderate the relationship between CSR and perceived reputation. Specifically, the positive effect of CSR on perceived corporate reputation is more salient among people with a higher income. Managerial implications are discussed.

### 1. Introduction

Firms tend to act on both economic and ethical obligations to their stakeholders. They can reap enormous benefits when their stakeholders perceive them as concerned citizens practicing business in a socially responsible manner (Fu et al., 2014; Tian et al., 2011). For instance, customers, particularly sensitive to firms' social responsibility activities, may show favorable attitudes and patronage behavior towards such firms (Bhattacharya and Sen, 2004). As a result, corporate social responsibility (CSR) activities play an important role in determining a firm's social and economic performance (Benavides-Velasco et al., 2014).

Previous research has tested the direct effect of CSR on consumer choice and evaluation (e.g., Bhattacharya and Sen, 2004; Romani et al., 2013; Tian et al., 2011). Most empirical studies in the extant literature, however, fail to consider the intervention of mediating variables. Although researchers generally concur that a firm's long-term survival can be improved if it aligns business activity with the broader public interest, little is known about the theoretical mechanisms for consumers' reaction to CSR practices (Romani et al., 2013). As Bhattacharya et al. (2009) point out, "it is becoming increasingly clear that in order to explain and predict the outcomes of CSR activity with any degree of certainty, we need a more precise understanding of the underlying processes that drive those returns" (p. 258).

Furthermore, consumers' reaction to CSR practices may not be universally consistent. From a marketing perspective, firms have devoted special attention to identifying consumer characteristics that can be used in the segmentation of consumers' responses to CSR activities. Previous research suggests that consumers' demographics may shape their perception of CSR and firms enforcing CSR initiatives (Cai and Aguilar, 2013; Cheah et al., 2011; Perez and del Bosque, 2013). Despite the increased interest in the topic, most studies on consumer demographics and the role they play in the formation of CSR perceptions are exploratory in nature. Empirical evidence is much needed to verify if and how the perceptions of CSR activities vary across different types of consumers. In addition, the extant CSR research concentrates mostly on developed economies in Western societies (Rettab et al., 2009). The extent to which we can generalize these research findings to other social and economic settings cannot be determined a priori. As Gao (2009) puts it, research examining CSR in emerging economies is much needed, particularly in industries other than manufacturing.

In this study, we aim to fill the void by investigating the impact of CSR on consumers' attitudinal and behavioral responses, factors closely related to a firm's social and economic performance, using data collected from the Chinese hospitality industry. Not until recently, hospitality companies have extensively engaged in CSR practices in their attempt to create and maintain a long-term, mutually beneficial

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relationship with their stakeholders. This trend is especially manifest in law enforcement in China. In 2006, the Chinese government enacted the Company Law to explicitly recognize and promote CSR (Yin and Zhang, 2012). With the growing concern over societal and environmental issues in China, CSR in the hospitality industry has received increased attention from practitioners as well as scholars (Fu et al., 2014). Despite the continued interest, our knowledge of the influence of CSR initiatives on consumer response in this particular service industry is still limited (Liu et al., 2014; Park and Levy, 2014). The effect of CSR practices on customers' patronage behavior may be especially accentuated in the context of tourism consumption. First, tourism consumption shares some major characteristics of services, namely, perishability, variability, and intangibility. Second, tourism consumption usually takes place in a location other than consumers' residence. These characteristics make tourists especially susceptible to company image and reputation. CSR practices, therefore, may play an important role in shaping consumers' evaluation of a service provider. For instance, Tian et al. (2011) indicate that for experiential products, consumers are more likely to display favorable attitudes and purchase intent if a company implements CSR initiatives than if it doesn't.

The purpose of the study is three-fold. First, we examine the underlying mechanism by which CSR affects customers' attitudinal (i.e., customer satisfaction, perceived reputation, and customer commitment) and behavioral responses (i.e., loyalty intentions and WOM). This enhances our understanding of how CSR fosters a firm's competitive advantages by cultivating core competencies (e.g., a positive brand image). Second, we investigate whether the role of CSR is universal across various consumer groups. As mentioned earlier, demographics-based differences in CSR perception have always been a topic of interest, yet with insufficient empirical evidence. In this study, we aim to explore the role of two customer demographic features – income and education – in the formation of CSR perceptions, as these two variables are often used to identify socially oriented customers. By assessing the moderating effects of key demographic variables, the study sheds light on the varying effects a firm's CSR initiatives may have on different consumer segments. Finally, the study may provide preliminary insights into the role CSR plays in forming consumers' attitudinal and behavioral loyalty in the burgeoning Chinese hospitality industry. China's hotel industry originated in 1978. Despite its short history, the hotel industry has been growing at a rapid rate. The World Tourism Organization predicts that China will be the number one tourist destination in the world by 2020 (WTO, 2005). In a country substantially different from democratic, developed countries, consumers' response to a firm's fulfillment of societal obligations cannot be envisioned based on our past experience with Western societies. Findings from this study may sensitize firms seeking investments in the growing Chinese tourism markets to the strategic importance of nurturing CSR.

The paper is arranged as follows. We first present the conceptual framework and research hypotheses. Then we describe the study design, followed by an analysis of the results. We conclude the study with a discussion of the findings and their implications.

## 2. Theoretical framework and research hypotheses

### 2.1. CSR and perceived reputation

The Signaling Theory (Spence, 2002) suggests that CSR has a positive effect on company reputation. When a firm demonstrates socially responsible behavior, consumers' evaluation of that firm is positively swayed, conducive to building a good company reputation (Fombrun and Shanley, 1990). As a firm's reputation is often reflective of public opinion, and such opinion hinges upon meeting stakeholder expectations, a firm's CSR practices signal that the firm will behave in accordance with stakeholders' expectations (Brammer and Pavelin, 2006), which helps augment a firm's reputation (Galbreath and Shum,

2012). In a similar vein, a relational approach holds that a firm demonstrating CSR can establish a constructive relationship with its customers while achieving a good reputation (Porter and Kramer, 2006).

Empirical evidence for CSR's positive impact on corporate reputation abounds in the literature (e.g., Stanaland et al., 2011; Yoon et al., 2006). For instance, Park, Lee and Kim (2014) confirm that a firm's fulfillment of economic and legal CSR initiatives has a direct positive effect on corporate reputation, whereas ethical and philanthropic CSR initiatives have an indirect positive effect on corporate reputation via customer trust. Therefore, we propose the following hypothesis:

**H1.** CSR positively affects perceived corporate reputation.

### 2.2. CSR and customer satisfaction

Daub and Ergenzinger (2005) propose a notion of “generalized customers” to indicate a firm's customers as well as the current and prospective stakeholder groups. Such generalized customers are likely to be more satisfied with products that socially responsible companies offer (Luo and Bhattacharya, 2006). A strong record of CSR may positively shape consumers' evaluations of the company (Luo and Bhattacharya, 2006; Sen and Bhattacharya, 2001), and boost their customer satisfaction (Galbreath and Shum, 2012). Using data from the banking industry in Spain, Perez and del Bosque (2015) find that the perceptions of customer-centric CSR initiatives lead to increased customer satisfaction with the banking institution. Based on the above evidence, we offer the following hypothesis:

**H2.** CSR positively affects customer satisfaction.

### 2.3. Perceived reputation and customer satisfaction

From a customer's perspective, relationship quality can only be attained when customers fulfill their needs, and are satisfied with the overall service experience (Cheng et al., 2008). Customer satisfaction is a vital element of sustainable long-term relationship, and an emotional outcome of positive corporate associations. More favorable evaluations of corporate reputation result in a greater level of customer satisfaction. A company that succeeds in building a good reputation suggests to its stakeholders that the firm's products and services are of superior quality and reliability (Raithel and Schwaiger, 2015). This has been confirmed by studies done in the contexts of retail, restaurant, energy, and airline industry (Walsh et al., 2006). Hence, we offer the following hypothesis:

**H3.** Perceived reputation positively affects customer satisfaction.

### 2.4. Perceived reputation and customer commitment

Rooted in the social exchange theory, commitment is one of the central notions in the relationship marketing research (Hennig-Thurau et al., 2002). Customer commitment reflects a customer's desire to maintain a long-term, mutually beneficial relationship with a firm. It is a key contributor to building a relationship with a firm, because it is likely to result in favorable patronage behavior.

Cognitive Consistency Theory (Heider, 1946) suggests that people strive to maintain psychological harmony in their perception and evaluation of external stimuli. Messages consistent with one's preexisting attitudes and beliefs are accepted more readily and incorporated in one's knowledge system. Therefore, when consumers recognize a reputable firm, they are likely to exhibit emotional attachment (i.e., feelings of commitment) and favorable patronage intentions, conforming to their existing attitudes and beliefs. Empirical evidence seems to support this theory. For instance, Bartikowski and Walsh (2011) conduct a study of customers who evaluate the reputation of service firms. They find that customer commitment mediates the relationship

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