

Corporate social responsibility and customer loyalty in intercity bus services



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ABSTRACT

Corporate social responsibility (CSR) and customer loyalty play an essential part in ensuring sustainable operations and long-term development of intercity bus companies. This paper proposes a new research model to examine how CSR affects customer loyalty in intercity bus services and how it interacts with service quality, corporate image and customer satisfaction in affecting customer loyalty. An empirical study on a leading intercity bus company in Taiwan is conducted to test the research model, using structural equation modeling. The study finds that CSR has an indirect effect on customer satisfaction and customer loyalty through corporate image and customer satisfaction respectively as a mediator. In particular, a new finding of the study highlights the importance of the mediating role played by corporate image in enhancing the effect of CSR on customer loyalty. The research findings provide useful insights into how intercity bus companies should develop a CSR policy that would enhance corporate image and customer satisfaction, consequently leading to customer loyalty.

1. Introduction

Intercity buses have proven to be a sustainable public transport mode that meets long-distance travel demand between cities or urban areas (Woldeamanuel, 2012). As part of the public transport network, intercity buses contribute considerably to the sustainability of the overall public transport system due to their economic viability, environmental friendliness and social acceptability. In the intercity bus industry, companies are often competing with each other and with other intercity transport modes where customer loyalty plays an essential part to ensure its sustainable development. This is particularly the case for Taiwan's intercity bus companies which operate in a highly competitive market (Wen et al., 2005). How to develop and achieve customer loyalty has thus become a critical issue for Taiwan's intercity bus companies under a highly competitive business environment. Another critical issue for Taiwan's intercity bus companies is how to fulfil their corporate social responsibility (CSR). This CSR fulfilment is required to comply with the government's sustainable public transport policy with economic, environmental and social considerations and to meet the stakeholders' expectations about environmental and social issues.

CSR has been commonly accepted as an essential issue for companies to address in order to ensure their sustainable development and competitive advantages. Successful companies balance economic and social goals by integrating social concerns into their core operation

frameworks and business strategies (Porter and Kramer, 2006). CSR creates values by reducing costs and risks, developing reputation and legitimacy, gaining competitive advantages, and achieving win-win outcomes by synergistic value creation (Kurucz et al., 2008). To achieve sustainable growth and long-term development, companies have moved beyond the compliance with the CSR regulations and viewed CSR as an investment that creates benefits (Pohle and Hittner, 2008). By integrating CSR as a policy into core business strategies, CSR enables companies to enhance their competitive advantage that differentiates themselves from their competitors and maintain sustainable relationships with their stakeholders (Carroll and Shabana, 2010). Implementing a CSR policy is thus important and essential to sustainable operations and long-term development of a company.

Taiwan's intercity bus companies are taking initiatives to develop their CSR policy for directing CSR activities to be undertaken. In particular, a top leading intercity bus company in Taiwan, as the case company of this study, has recently implemented its CSR policy and actively engaged in CSR activities with a view to promoting its corporate image and enhancing its competitive advantage that distinguishes itself from its competitors. The total CSR commitment of the company motivated this study to examine the potential effect of its CSR policy on customer loyalty in intercity bus services. In the context of public transport, the attractiveness of a transit company or mode may increase when it meets also passengers' high emotional needs of self-actualization

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as well as their functional needs of travel. CSR may well be the answer of a transit company to meet these needs when the company's image of being environmentally friendly and socially responsible is associated with its transport services. As such, to help intercity bus companies better understand practical implications of their CSR policy, we propose a new research model to examine the relationship between CSR and customer loyalty in the context of Taiwan's intercity bus services.

In subsequent sections, we first give a review of the relationship between CSR and customer loyalty. We then present the new research model and discuss the constructs and research hypotheses. Next, we describe the survey instrument used and the data collected, followed by testing the model using structural equation modeling. Finally, we discuss the results and their practical implications, contributions and limitations.

2. Corporate social responsibility (CSR) and customer loyalty

Prior studies have shown inconsistent results in examining the relationship between CSR and corporate financial performance or customer behaviors (Carroll and Shabana, 2010; Loureiro et al., 2012; Pérez and Rodríguez del Bosque, 2015). This may well be attributed to the notion that the effect of CSR on corporate financial performance or customer behaviors largely depends on mediating variables and situational contingencies (Carroll and Shabana, 2010). In the case of customer loyalty, the effect of CSR has been shown through the mediating role of service valuation (Salmones et al., 2005), trust (Martínez and Rodríguez del Bosque, 2013; Vlachos et al., 2009), perceived service quality (Mandhachitara and Poolthong, 2011), customer satisfaction and customer-company identification (Martínez and Rodríguez del Bosque, 2013).

Despite their significant contributions toward a better understanding of mediating variables between CSR and customer loyalty, extant CSR studies do not seem to specifically consider corporate image as a mediator when examining the CSR and customer loyalty relationship. This may be partly because no sufficiently strong empirical evidence is available to support the link between corporate image and customer loyalty (e.g. Aydin and Ozer, 2005; Lai et al., 2009), although the study by Nguyen and Leblanc (2001) suggests that the degree of customer loyalty tends to be higher when both the perceived corporate image and corporate reputation are strongly favorable.

These CSR studies lead us to develop a new research model that examines how CSR may affect customer loyalty through its interaction with service quality, corporate image and customer satisfaction. The research model makes a new contribution to CSR research by understanding the mediating roles played by corporate image and customer satisfaction in the CSR and customer loyalty relationship in the context of intercity bus services. In particular, the research model incorporates corporate image as a mediator between CSR and customer satisfaction with a view to

enhancing the effect of CSR on customer satisfaction and customer loyalty.

3. The research model

Fig. 1 shows the new research model with the five constructs describing the CSR and customer loyalty relationship and its interactions with service quality, corporate image and customer satisfaction. The model comprises nine research hypotheses to be tested. The arrows indicate the hypothesized relationships which are all positive.

3.1. Corporate social responsibility (CSR)

Various definitions of CSR have been proposed under different contexts (Carroll, 1999; Dahlsrud, 2008). With no commonly agreed definition of CSR, it is important to understand how CSR is socially constructed in a specific context on which the development of business strategies can be based (Chang and Yeh, 2016; Dahlsrud, 2008). In this study, CSR is defined as the commitment of business to contribute to consumer wellbeing, employee wellbeing, community engagement and environmental issues (Abbott and Monsen, 1979; Carroll, 1999; Holmes, 1978). This definition is in line with the CSR policy implemented by Taiwan's intercity bus companies for complying with government regulations and for improving the relationships with their stakeholders. As such, in this study, CSR is measured by 16 survey items grouped under the customer, employee, community, and environment dimensions, as shown in the Appendix.

Empirical studies incorporating CSR into customer loyalty models have demonstrated a positive relationship between CSR and customer loyalty (e.g. Mandhachitara and Poolthong, 2011; Martínez and Rodríguez del Bosque, 2013). One key outcome of positive CSR activities is customers' positive word of mouth and recommendation about a socially responsible company (Bhattacharya and Sen, 2004), which is an essential aspect of customer loyalty. In the case of transit service provision, empirical evidence has shown that perceived CSR is associated with frequency of transit use and perceived service quality (Kaplan et al., 2014).

In terms of customer satisfaction, customers are more likely to develop a sense of connection with a socially responsible company through CSR activities, thus having a better perceived value and consequently a higher satisfaction with the products or services provided by the company (Luo and Bhattacharya, 2006). Additional empirical studies have shown that CSR associations have an effect on customer satisfaction (e.g. Loureiro et al., 2012; Martínez and Rodríguez del Bosque, 2013).

CSR activities such as philanthropy will help promote a company's corporate reputation and lead to good corporate image (Brammer and

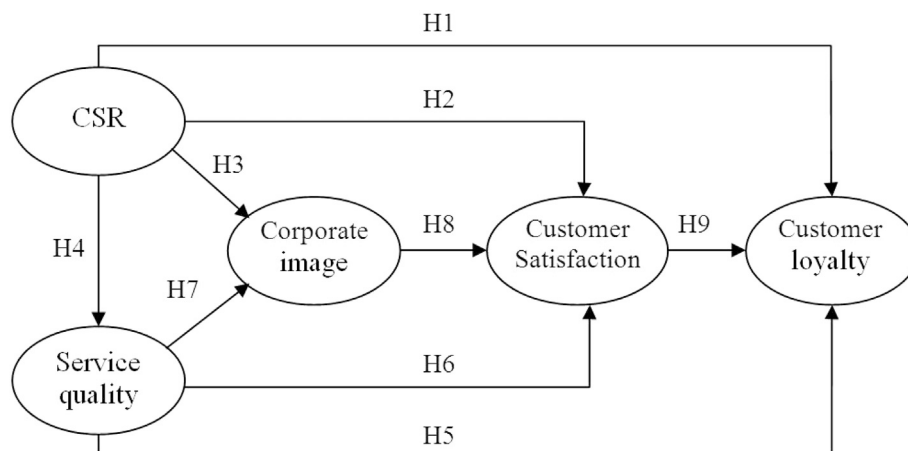


Fig. 1. The research model.

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