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# The effect of firm scale and CSR geographical scope of impact on consumers' response

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ABSTRACT

The role of corporate social responsibility (CSR) in shaping consumer perception and attitude has received many attentions both in the academia and practitioner world. While this domain has invited numerous research, but research highlighting how consumers react toward learning the size of a firm conducting CSR and geographical scope of the CSR impact is still scarce. We investigate how consumers shape their attitude and consumption behavior after knowing that the CSR action is done by a small, locally-owned business that brings impact to the local community through an experimental study. Our study adds a shade in understanding how the effect of a firm size and geographical scope of CSR impact might increase consumers' favorable attitude and behavior toward the business and its products. Our findings show that when consumers learn that the firm conducting CSR is a small, locally-owned (in coffee shop business) that directs its action toward local beneficiaries, they demonstrate more favorable attitudes toward the action and the firm, which manifest in the form of better intentions to acquire the product as well as willingness to pay premium prices for it. Our findings confirm the US consumers' love affair with local businesses, in particular. While the findings generally benefit small, locally-owned businesses, they also suggest recommendations for large, multinational businesses to design their marketing strategy in an attempt to increase favorable reactions from consumers.



## 1. Introduction

Today, more companies are aware of the importance of Corporate Social Responsibility (CSR) and as such, have started to engage in responsible actions of different magnitudes. Some empirical evidence has demonstrated how CSR puts a company in a more advantageous position in comparison to its competitors. These advantages can be explained through the enlightened self-interest perspective (Aram, 1989; Arlow and Gannon, 1982; Mescon and Tilson, 1987), that maintains that CSR actions will be reciprocated by the community under certain circumstances, such as enhanced reputation and corporate image that attracts and retains customers, improved employee morale that provides better employee engagement, improved process and quality that saves costs, and sometimes, access to other investment and funding opportunities (Vives, 2006; Saulquin and Schier, 2007; Berger-Douce, 2008; Worthington et al., 2008; Russo and Tencati, 2009). These benefits drive companies to view CSR as a business strategy aimed at maintaining society's welfare to ensure the long-term success of the business itself (Miller and Besser, 2000).

CSR has long been spotlighted on large multinational corporations (MNCs) (Jamali et al., 2009; Spence, 2007). This is mainly due to the fact that many MNCs report their CSR-related activities extensively and as such, MNCs seem to be ubiquitous in both media and scholarly research of CSR (Blomback and Wigren, 2009). The scarcity of knowledge of CSR in SMEs (or small businesses) and comparative research on SMEs vs. MNCs resulted in general impression that CSR is the domain of MNCs and that MNCs seem to be more advanced in CSR implementation as compared to SMEs (Pedersen, 2009; see Campbell (2007) and McWilliams and Siegel (2001)). In addition, contrary to MNCs, SMEs put little emphasis on communicating their CSR activities to external observers but tend to focus more on internal implementation of CSR-related practices (Baumann-Pauly et al., 2013). Consequently, this resonates with the growing public perception that CSR is just the domain of MNCs.

Recently, however, businesses of smaller sizes and narrower scopes and scales (i.e. locally-owned/local scope) have started to adopt more socially responsible gestures. While some may be due to the pressures put on them as part of the MNCs' supply chain (i.e., reactive approach) (Raynard and Forstater, 2002); others may

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have adopted CSR simply because of self-awareness to the benefits (i.e. proactive approach) although the previous seems to be a more frequent reason than the latter (Morsing and Perrini, 2009). Regardless of the approach, small businesses can actually benefit from practicing CSR. Using survey of 2000 small businesses in Portugal, a study by Santos (2011) found that the main benefits of CSR perceived by small businesses were better reputation, higher employee motivation, raising quality, and better productivity – in line with advantages of CSR in general. In addition, the adoption of CSR activities also brings advantages to SMEs in the form of better development of innovative products and services that may tap into the new and emerging markets as well as financial advantage such as cost reduction and increased inefficiency (Jenkins, 2009; Russo and Tencati, 2009).

Despite benefits and growing interest in CSR integration into daily management of some small businesses, large number of small businesses remains skeptical towards adopting CSR as their business strategy (Kechiche and Soparnot, 2012). This skepticism can be understood as small businesses face specific challenges with regards to business survivals. Not only that small businesses must face the harsh reality of higher business dissolution rate (i.e. 50% of all firms over 5-year period) (Miller et al., 2003), they also face the so-called "triple jeopardy" phenomenon that holds that small businesses suffer the consequences of having fewer customers, who visit less often, and spend less per visit (Bhat and Fox, 1996). Some directors of SMEs (small businesses) express skepticism toward the benefits derived from CSR activities; consequently, they tend to be hesitant to go beyond what is legally required (Revell and Blackburn, 2007). Lack of financial resources and cost of implementing reasonable measures of the CSR activities drive the directors to think less favorably about CSR and believe that the resources for investment will not be offset in cost savings (Kechiche and Soparnot, 2012). These barriers are the main contribution to the hesitation of adopting CSR. To reduce this skepticism, small businesses need to see the direct impact of CSR actions to their business, that can be reflected in consumers' responses, such as attitudes, purchase intentions, willingness to pay premium price, etc.

Research focusing on the connection between CSR and its ability to yield positive consumer attitudes and purchase behavior has been extensively investigated (e.g., Bhattacharya and Sen, 2001; Mohr and Webb, 2005; Becker-Olsen et al., 2006; Choi et al., 2009; Russell and Russell, 2009; Josiassen et al., 2011; Vanhamme et al., 2011). While most focus on companies in general, however, little is known in the domain of small businesses. Most research relating CSR in SMEs or small businesses place more focus on corporate commitment, readiness of equipment, drivers and barriers of implementation, organization practices and procedures, and so on (e.g., Lepoutre and Heene, 2006; Perrini et al., 2007; Spence et al., 2007; Worthington et al., 2008; Berger-Douce, 2008; Revell and Blackburn, 2007; Baumann-Pauly et al., 2013) rather than on consumers' responses. This is quite unfortunate as small businesses are important to regional economic development, generally; and remain a major component of the US economy (Miller et al., 2003), more specifically. In addition, empirical evidence demonstrates that Americans are still engaged in a love affair with small businesses as indicated by majority of US consumers favoring small businesses (Public Affairs Council, 2012), which may signal potential positive support of consumers toward CSR actions by small businesses.

The purpose of this research is to see whether CSR actions of small, locally-owned businesses would have positive impact on consumer responses. More specifically, we examine the effect of CSR actions by a firm based on the firm scale (i.e. small, local business vs. large, global business) on consumers' attitude and behavioral intentions. Since CSR actions may be directed to benefit a certain group of local community, while others may put more focus on the global community, we also examine whether the geographical scope of CSR impact (i.e. local vs. global impact) have an effect on consumers' behavior as well. Through experimental research design, our research contributes to the understanding of the causal effect of CSR by businesses of different size and its impact of different magnitude to consumers' reactions.

## 2. Literature review

### 2.1. Corporate social responsibility

While CSR has been defined and conceptualized in many ways (Carroll, 1979, 1999; Freeman and Hasnaoui, 2011; Wan-Jan, 2006; van Marrewijk, 2003; Dahlsrud, 2008), Harvard Kennedy School's Corporate Social Responsibility Initiative (2013) defined the concept strategically: “Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm”. This definition encompasses five important dimensions of social responsibility: environment, social, economic, stakeholder and voluntariness (Dahlsrud, 2008). In more digestible words, corporate social responsibility or CSR refers to “the obligation of businesses to contribute to social betterment above and beyond their role in the market exchange of their goods or services” (Frederick 1986, 1994 in Miller and Besser (2000)).

Debates surrounding pros and cons of the importance of CSR continue to occur although to a lesser extent. Davis (1973), also quoted by Carroll and Shabana (2010), described several points that were both unfavorable and favorable toward CSR concepts. Opponents of CSR may have based their stance on several reasons. First, adapted from Milton Friedman's view, management's one and only responsibility is to maximize profit of owners or shareholders. Second, businesses are not equipped to handle social activities as they may lack social skills. Third, social responsibility dilutes business' primary purpose, that is, economic productivity. CSR is assumed to decrease business productivity in the marketplace that may end up in failure to play its economic and social roles. Fourth, business possesses sufficient power and thus, does not need any other social power. Fifth, business may become less competitive globally. These views are based on the opinion that social programs would add on to business cost which eventually ends up on price increase. Davis (1973), in his argument, also stated that generally, business lacked accountability and broad support.

On the contrary, proponents of CSR believe in several different points. First, it is in business's long-run self-interest to be socially responsible. If businesses wish to continue to survive and exist in a sustainable healthy environment, they must adopt necessary actions to guarantee their future. Second, socially responsible actions are necessary to avoid new government regulations. If business can behave in socially responsible manner, government interventions in the form of new regulations are not necessary. Third, business has resources to conduct CSR actions and therefore, should be allowed to try. The main consideration for this reason is that business has valuable resources that can be applied to handle social issues. Fourth, prevention is better than cure and pro-acting is better than reacting. Proactively handling social problems is less costly than reacting to the problems after they have developed into bigger ones. Fifth, there is a public image reason, which is based on the fact that the public strongly supports social actions,