

How Does Corporate Social Responsibility Affect Consumer Response to Service Failure in Buyer–Seller Relationships?

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Abstract

The researchers investigate how corporate social responsibility (CSR) affects customer response following service failure within the context of buyer–seller relationships. A series of three experiments demonstrate that CSR is more effective under communal (vs. exchange) relationship norms, consistent with the alignment of CSR with the communal norm of concern for the needs of others. The effectiveness of CSR is also shown to vary as a function of company motives and CSR framing, serving as theoretically and managerially relevant boundary conditions. Together, these findings increase our understanding of how and when CSR will have a positive impact on consumers and, in turn, companies via customer satisfaction and loyalty.

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Keywords: Corporate social responsibility; Sustainability; Buyer–seller relationship; Service recovery; Customer satisfaction; Customer loyalty

“How far that little candle throws his beams! So shines a good deed in a naughty world.” (William Shakespeare, *Merchant of Venice*, Act V, Scene I)

In today’s competitive marketplace, where consumers have nearly unlimited choices of merchants and service providers, building a sustainable relationship with customers becomes paramount. As marketers search for new ways to build relationships with customers, recent research has suggested that Corporate Social Responsibility (CSR) programs might be a key way for companies to attract and retain customers (Sen, Du, and Bhattacharya 2009) and for retailers to enhance brand image (Ganesan et al. 2009). Examples of retailers with CSR activities include Publix Supermarkets Inc. (charitable donations to the United Way), Lowe’s Home Improvement (partnership with the American Red Cross to provide disaster relief), McDonald’s (support of Ronald McDonald House Charities), and Marriott UK (carbon footprint reduction and sustainability). Indeed, CSR has become mainstream in today’s corporate world

(Torreli, Monga, and Kaikati 2012; Vlachos et al. 2009). Against this backdrop, our research focuses on CSR situated within buyer–seller relationships (such as communal vs. exchange relationships between companies and customers; Aggarwal 2004). Specifically, we investigate consumer response to CSR (“a good deed”) situated within service failure (“a naughty world”) to address the following questions: Does CSR improve satisfaction and loyalty intentions following service failure in buyer–seller encounters? If so, how does the buyer–seller relationship moderate the impact of CSR? And what are the underlying mechanisms and boundary conditions for effective CSR?

Our investigation of these questions contributes to the retailing literature in several ways. First, previous research on CSR has identified various factors that alter the effectiveness of CSR but has not, to our knowledge, examined the type of buyer–seller relationship. We extend prior work by investigating how consumer response to CSR varies as a function of communal versus exchange norms governing the buyer–seller relationship. Second, previous research on CSR has mainly focused on its impact on choice and preference, but has largely ignored the context of service provision. Specifically, we assess whether CSR initiatives will exacerbate or mitigate the harmful effects of service failure—thereby addressing a surprising (and consequential) gap in the literature. Addressing this gap also contributes to the

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literature on customer satisfaction by exploring the potential role of CSR in building customer satisfaction and loyalty. Third, our research identifies the underlying mechanism—perceptions of a company's warmth and/or competence—by which CSR affects satisfaction and loyalty intentions. Doing so builds on recent research aimed at understanding the roles of warmth and competence (fundamental dimensions of social perception) within buyer–seller relationships. Fourth, our research examines how company's motives and CSR framing affect consumer response to CSR within a buyer–seller relationship. These findings identify several theoretically and managerially relevant boundary conditions on CSR that enhance or limit its effectiveness. Finally, our work has novel managerial implications for the practice of CSR, including its role in buyer–seller relationships, customer satisfaction, and service recovery (to be elaborated upon in the general discussion).

CSR in Buyer–Seller Relationships

CSR can be defined as a company's commitment to minimizing or eliminating any harmful effects and maximizing its long-run beneficial impact on society (Mohr, Webb, and Harris 2001, p. 46). CSR programs can take many forms, such as diversity initiatives, recycling programs, the use of green materials, support of community events, and charitable donations (Sen and Bhattacharya 2001). The present research focuses on CSR initiatives that include charitable donations (study 1) and sustainability (studies 2 and 3) for generalizability purposes and given their prevalence in business. Corporate philanthropy, including donation-based promotions, have become mainstream in the US corporate world (Henderson and Arora 2010; Krishna and Rajan 2009; Vlachos et al. 2009). Likewise, researchers and practitioners are paying increasing attention to environmental, social and economic dimensions of corporate sustainability (Chabowski, Mena, and Gonzalez-Padron 2011; McKinsey 2010).

Companies have become increasingly interested in CSR as it seems to have a positive impact on consumers' affective and behavioral responses (Barone, Miyakazi, and Taylor 2000; Brown and Dacin 1997; Du, Bhattacharya, and Sen 2007, 2011; Ellen, Webb, and Mohr 2006; Sen and Bhattacharya 2001). Moreover, CSR has been linked to increased market value of the company (Luo and Bhattacharya 2006, 2009) and better financial performance (Luo and Bhattacharya 2006, 2009; McGuire, Sundgren, and Schneeweis 1988; Stanwick and Stanwick 1998). Consumer research on CSR has mainly focused on its impact on choice and preference and surprisingly little is known about the impact of CSR (i) within the context of service provision, an important component of the economy (Vargo and Lusch 2004), and (ii) on customer satisfaction and loyalty (Anderson and Mittal 2000; Mittal and Frennea 2010; Oliver 2010).

Given that service failures are inevitable and recovery is essential in retaining a stable customer base (Gelbrich and Rosch 2011; Karande, Magnini, and Tam 2007; Smith and Karwan 2010; Tax and Brown 1998), how might CSR initiatives affect the negative impact of service failure on customer satisfaction and loyalty? On the one hand, CSR could help: for example, some

research has suggested that CSR may enhance consumer resistance to negative publicity (Eisingerich et al. 2011; Klein and Dewar 2004; Yoon, Gürhan-Canli, and Schwarz 2006). On the other hand, CSR could backfire: for example, company behavior that is inconsistent with CSR could lead to consumer perceptions of corporate hypocrisy (Wagner, Lutz, and Weitz 2009). Our research will build on these provocative findings and examine the impact of CSR on consumer response to service failure, including satisfaction and loyalty intentions. Doing so provides an arguably strong test of the power of CSR, as well as its potential role in service recovery, customer satisfaction, and loyalty.

CSR and Relationship Norms

Our research proposes that consumer response to CSR will depend upon the norms governing the buyer–seller relationship. In communal relationships, members benefit from each other on the basis of needs or to demonstrate general concern for each other's welfare (Clark 1984). Conversely, in exchange relationships, members benefit each other in response to specific benefits received in the past or expected in the future (Clark and Mills 1979; Mills and Clark 1982). Communal and exchange relationships and their accompanying norms were first identified in the interpersonal relationships literature but have proved useful in consumer contexts (Aggarwal 2004; Goodwin 1996; Johnson and Grimm 2010; Wan, Hui, and Wyer 2011). Communal and exchange norms are posited to vary across buyer–seller relationships, due to differences across industry (e.g., medical vs. financial services) and across firm due to brand positioning (Aggarwal 2004). For example, marketing communications may vary in their emphasis on communal versus exchange norms (e.g., Sheraton Hotels “Who's taking care of you?” vs. Days Inn “Best value under the sun”). Individuals may also vary in the chronic tendency to adhere to communal and exchange norms in relationships (referred to as communal and exchange orientation) (for a recent review, see Clark and Mills 2011). Given their conceptual equivalence, our research will refer interchangeably to communal consumers as consumers in communal relationships, guided by communal norms, or high in communal orientation (and likewise for exchange).

In interpersonal relationships, people use relationship norms as standards to evaluate others and to decide what is appropriate in certain situations. For example, helping occurs more in communal than exchange relationships (Bar-Tal et al. 1977; Clark et al. 1987) and refusing to help makes individuals feel worse (Williamson and Clark 1989a, 1989b; Williamson et al. 1996). Moreover, individuals in communal (vs. exchange) relationships expect partners to be more responsive to their needs and to provide more help. “Feelings of injustice...should be common when one person willingly neglects the other's needs” but “...should not lead to feelings of injustice in exchange relationships” (Williamson and Clark 1989a, p. 93). Indeed, the communal orientation scale includes a measure of others' responsiveness (e.g., “I believe people should go out of their way to be helpful”, “It bothers me when other people neglect my needs”; Clark et al. 1987). Consistent with higher expectations of partner's responsiveness to their needs, individuals felt less

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