

Can Corporate Social Responsibility contribute to Corporate Financial Performance?

Abstract:

The purpose of this research paper is to investigate the relationship between CSR and the purchasing behavior of Cypriot consumers during 2013/2014. The data collected is compared and contrasted to similar surveys which took place in Cyprus before the Economic Crisis and the depositors “Haircut” of March 2014. More specifically, the major objective of this paper is to examine the attitude of Cypriot consumers towards CSR and to demonstrate whether and to what extent CSR affects their purchasing decisions. In order to examine whether there is a positive relation between CSR and consumers’ demand and consequently more revenues and profit for the corporations in Cyprus the researchers used the survey as a quantitative research tool, among 572 Cypriot Citizens above the age of 18.

On the basis of the results of the survey, it can be concluded that Cypriot consumers seem to be positive towards the notion of CSR. They appeared to be supportive to companies which are socially responsible and try to contribute towards the elimination of famine and poverty in Cyprus unlike previous research when the island was prosperous and the great majority of consumers wanted the corporations to be socially involved in anti-cancer and anti-drug activities. The same study also shows that Cypriot consumers support socially responsible attitude but this does not always translate into positive purchase decision but other parameters such as quality and price appear to be more important. CSR may contribute to CFP when all other factors are secured.

Key words: Corporate Social Responsibility (CSR), Corporate Financial Performance (CFP), Cypriot Consumers, Brand Image, Social Causes.

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Introduction

There is a lot of Literature Review in support of CSR and a big number of Academics claim that CSR can generate a positive market image and can provide better positioning in the marketplace compared to competitors. Nevertheless there is a lot of Literature Review on different theories

about CSR which do not fully agree on the value of CSR. Carroll (2010) wonders if the Corporate Financial Performance is positively related to CSR. The various views are contradictory since some researchers have found that there is negative relation between the CSR and CFP, others found a positive relation while a number of researchers found that there is no relation at all (Griffin and Mahon, 1997).

At the beginning of the 20th Century, Businesses were accused of being too big and powerful, as well as antisocial, incorporating anticompetitive practices (Lawrence and Weber, 2011). In response to the public attack over the businesses, some of the wealthiest business owners such as Andrew Carnegie, Henry Ford and John D. Rockefeller started philanthropic efforts and provided charitable donations. At that time two principles namely the *charity principle* and the *stewardship principle* have emerged. Lawrence and Weber (2011) describe the charity principle as ‘the idea that the wealthiest members of society should be charitable toward those less fortunate’. The stewardship Principle was based on the idea that corporate executives see themselves as stewards, who have been placed in a position of public trust and act in the general public’s interest, is encompassed under the stewardship principle (Lawrence and Weber, 2011). Both principles were the basis for the concept of Corporate Social Responsibility. In 1953, Howard R. Bowen, an American economist, provided the first comprehensive approach to social responsibility which was described as ‘the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society’ (Carroll, 1999). According to Bowen, public responsibility, social obligations, and business morality are synonyms for social responsibility. Since then, academic discussion of the concept of CSR has grown significantly and numerous studies have attempted to define and provide an understanding of what CSR means. Many academics attempted to reach a consensus over the definition of CSR but it seems that it is difficult to reach a precise and conclusive definition. Since the concept of CSR has been introduced it has been continuously evolving and changing in meaning (Lee, 2008). Academic research claims that CSR can generate a positive market image and can provide better positioning in the marketplace compared to competitors which in turn is translated to consumers’ positive product and brand evaluation. A growing body of academic research supports that consumers will reward firms for their ethical behavior and that there is a positive link between CSR and consumers’ product purchase intentions. On the other hand, there is also a great deal of academic research that has

found a weak or even insignificant relationship between CSR and consumers' purchase intentions. Other studies support that CSR is of marginal importance to consumers when it comes to their purchase decisions, and even as a part of the corporate strategy and identity, it cannot be proved that CSR attracts and retains customers. Although many researches confirm that CSR could create positive perceptions of customers toward company such as: customers' loyalty and trust and repeat purchase, however, there are also researches which show that customers will not blindly accept the CSR programs as sincerely actions of the companies especially when these activities and programs are only in the short term (Ellen et al. 2000, Sen and Bhattacharya, 2001). In an effort to identify consumer behavior of Cypriot Citizens on goods and services associated to CSR approaches and examine whether CSR is a reason for their Purchasing decisions we preceded with a survey among 585 participants.

METHODOLOGY

Research objectives

The purpose of this research is to investigate whether Cypriot consumers consider CSR as an important purchasing criterion and whether CSR influences their purchasing decisions. As the foundation of this thesis the following research objectives have been set:

- To find out whether Cypriot consumers support the notion of CSR and what do Cypriot consumers feel with regards to the level of CSR engagement of Cypriot companies
- To examine how aware Cypriots are with regards to the CSR engagement of Cypriot companies
- To find out what do Cypriot consumers believe with regards to Cypriot companies' motives for being socially responsible
- To examine whether Cypriot consumers consider a company's CSR engagement when purchasing a product
- To find out whether Cypriot consumers are willing to change brands or even pay a price premium in order to reward a company for its CSR activity or in order to boycott a company for its unethical behavior
- To find out which social issues are of greater importance for Cypriot consumers

- To compare and contrast the research findings to surveys which took place before 2012 when Cyprus was very prosperous.

Research approach

For the purpose of the paper both primary and secondary research methods have been incorporated. Secondary data has been collected from various sources which include books, journals and the internet which was used to compare and contrast theories and previous research with the primary data for triangulation purposes.

The researchers used quantitative research approach. Some of the advantages of a quantitative research are that it can be administered and evaluated quickly and that numerical data obtained through this approach facilitate comparisons between sample groups. On the other hand quantitative research requires a large sample size and does not provide an in depth examination as opposed to qualitative research where small sample sizes are used concerned with generating theories. Quantitative research is characterized by high reliability which is the consistency of the measurement and low validity which is related to the strength of the conclusions.

In order to examine the research objectives stated above, the author decided that the most appropriate type of research is the research survey with the use of a questionnaire as the survey instrument. A survey enables to assess practices, attitudes and beliefs collecting information of a representative sample of the population under study. The result from this type of survey gives an indication of the issues under examination in a particular population at a particular point of time making it easy to compare and contrast answers by respondent group. .

The questionnaire consisted of sixteen close-ended questions where respondents were given the possibility to answer on a three to five multiple-choice scale and one open-ended question. Respondents were asked, for example, to rate a number of statements allowing the author to obtain quantitative data on the attitudes and beliefs of Cypriot consumers. The questionnaire was designed so that questions were grouped into five parts with each part investigating different parameters. The first part of the questionnaire consisted of two introductory questions that asked the gender and the age group of respondents. The second part of the questionnaire penetrated into respondents' attitude towards the notion of CSR and their thoughts regarding to Cyprus companies' level of CSR engagement. The third part investigated respondents' CSR awareness

and the fourth and largest part of the questionnaire explored whether respondents' consider CSR as an important purchase criterion. The final part of the questionnaire aimed to shed light on consumers' willingness to switch to a different brand as opposed to their favorite brand and whether they would pay a price premium in order to reward ethical or punish unethical behaviors as well as their level of concern towards specific ethical or unethical actions.

Sampling approach

The research used a convenience sampling method which is non probability sampling method as it allowed gathering responses from a quite large number of respondents in a relatively short period of time. In convenience sampling the members of the target population are selected for the purpose of the study if they meet certain criteria such as geographical proximity, availability at a certain time, easy accessibility (Dörnyei, 2007). A disadvantage of this method is that biases and influences might be introduced to the sampling procedure (Mackey and Gass, 2005).

The target population of this study, i.e. the population to which the results will be extrapolated, comprises all Cypriot citizens above the age of eighteen. The minimum age criterion was introduced because people above the age of eighteen are considered to be able to decide independently on their purchases. Obviously, it was impossible to include the whole population in the study and a source population was used which is generally more limited than the target population. The choice of the source population is determined by the definition of the target population and by practical and logistic constraints. For practical and logistical reasons, the study was conducted in Nicosia. Again, the source population remained too large so a representative sample was selected. The selection of the representative sample was dependent on the sample design, i.e. the method of selecting the sampling units from the population. Samples can be chosen by judgment, subject to what the researcher judges to be a 'balanced' or 'representative' sample. The sample can be also chosen by convenience, i.e. the most easily obtained and accessible units. Therefore the representative sample for this study was obtained from students studying at the University of Nicosia and from the working environment of the author. Through this approach, the goal was for the sample to cover all education levels and age levels.

Self-administered questionnaires were emailed or handed to students of University of Nicosia by their professors in a classroom environment and to the employees of three big Audit companies.

For both cases, all completed questionnaires were placed in closed envelopes and returned back to the author, in order to secure anonymity. From the 600 questionnaires which were given, 572 responses were obtained which were analyzed with the use of descriptive statistics (Excel advanced packages).

Sample Demographics

As was mentioned before 572 respondents answered the questionnaire. Respondents were 51% male and 49% female. The age distribution of the respondents was: 31% between 18-25 years old), 36% between (26-35 years old), 18% between 36-45 years old, 8% between 46-55 years old and 7% between 56 years old and above. From the gender perspective respondents were divided evenly whereas age wise, respondents were divided relatively unevenly since there were fewer respondents belonging to the last two age groups.

Limitations

A limitation of this thesis is the age distribution of the respondents in which the percentage of respondents belonging to the age groups 46-55 and 56-older were very low compared to other age groups. Another limitation was that the survey was contacted only on Nicosia and did not include respondents from other cities. The finding of this thesis could also be supported by the used of qualitative research would allow more probing on the attitude behavior gap than questionnaires do. Incorporation, for example, of focus groups or interviews would interpret and explain the statistical results of the quantitative research.

Research Findings

The research findings are analyzed below as per question asked. It should be noted that there were no identifiable differences in the responses given by either gender or age groups.

Level of CSR engagement expected from corporations

The respondents of the survey were given two statements and were asked to choose the one with which they agreed the most. The purpose was to assess respondents' expected level of CSR which corporations should undertake. Results show that almost all respondents (97%) believe that corporations should be involved in CSR activities. Only 3% of the respondents supported

that corporations' primary responsibility is profit maximization and that there is no need to be involved in CSR activities.

Level of satisfaction with regards to Cyprus companies' CSR engagement

Respondents were asked to assess how satisfied they are with regards to level of which Cyprus companies are engaged in CSR activities. 11% of the respondents reported that they are not satisfied at all, 25% reported that are satisfied to some extent and only 2% of the respondents reported that they are satisfied to a large extent. The majority of the respondents, 62% reported that they are satisfied to a minor extent.

Attribution towards Cyprus companies' motives for being socially responsible

The purpose of this question was to find out respondents' thoughts about companies' motives for being socially responsible. Respondents' were asked to choose between four motives, ranging from solely being self-interest motive to being solely community-interest.

Results revealed that 27% of the respondents feel that companies' main motive is to attract customers and make profit, (solely self-interest). The majority of the respondents (58%) feel that companies' motive is primarily self-interest and to a lesser extent community-interest. At the same time, 13% of the respondents feel that their motive is mainly community-interest and to a lesser extent self-interest. Only a small percentage (3%) feels that companies' motive is to benefit the community, (solely community interest).

Level of Confidence in the information provided by companies on their CSR activities

The survey examined the level of confidence respondents have in the information announced by Cyprus companies with respect to their engagement in CSR activities. The answers to this question reflect that the majority of the respondents (61%) indicated their confidence in the information announced by Cyprus companies was only to a minor extent. 7% answered that they have no confidence in the information announced by Cyprus companies and 30% are quite confident as to the information announced. Only 2% answered that they have a lot of confidence in the information announced.

Awareness of Cypriot companies' CSR engagement

Respondent's level of awareness about the CSR practices of the companies producing their favorite brands was also examined. According to the results, 23% of the respondents are not aware at all, 47% of the respondents are aware to a minor extent while 27% of the respondents are aware to some extent. Only 4% of the respondents reported that they are aware to a large extent of CSR engagements with regards to the practices of the companies producing their favorite brands. As for their interest in knowing more about the CSR practices of the companies producing their favorite brands, 88% of the respondents expressed interest in becoming more aware while 12% were not interested in becoming more aware. At this point, an open ended question was used in order to measure respondents' opinion as to prominent "Socially Responsible companies in Cyprus". Respondents were asked to name three Cyprus companies which, in their opinion, are socially responsible. According to the results, 40% of the respondents did not answer this question i.e. they did not name any Cyprus company. Based on the answers given by the 60% of the respondents, it appears that the most well known socially responsible company is Bank of Cyprus, followed by Shiacolas Group and Hellenic Bank who ranked second and third respectively. Other companies that appeared less frequently in responses were Alpha Mega supermarkets, Papaellinas Group, Green Dot, OPAP Sports and Zorpas bakeries.

CSR practices as a purchasing criterion

In the next question, respondents were asked whether CSR is a criterion for their purchases. More specifically, they were asked whether they consider CSR as a purchase criterion and search for relevant information before they make a purchase. Results in Figure 6 showed that 31% of the respondents never search for CSR information in order to decide a purchase, 47% reported that they sometimes do and 17% reported that they usually do. Respondents, who always think of CSR before deciding on their purchases, were the smallest group of 5%.

Respondents were then asked whether CSR practices of a company have ever been the most important criterion for choosing a specific company for their purchases. Results shown in Figure 7 indicate that 25% of the respondents have never considered CSR as the most important criterion for a purchase. Just over half of the respondents, 54%, reported that they have occasionally considered CSR as the most important criterion, 20% reported that CSR has often been the most important criterion and only 1% reported that they always consider CSR as the most important criterion for their purchases.

At this point, respondents were asked to assign a weighting, between 1 to 4 with 1 being the least important and 4 being the most important, in respect to what influence five specific parameters have on their purchasing decisions. In other words, respondents had to evaluate the importance of product price, product quality, fashion trends, company reputation and company's CSR activities on their purchasing decisions. As indicated by the results, product quality affects purchasing decisions the most since as it was reported as the most influential parameter by the majority of the respondents. The second most influential parameter indicated appears to be price, followed by a company's reputation and fashion trends which were ranked third and fourth respectively. Interestingly, the lowest percentage of respondents for being the most influential factor was given to the CSR practices of a company.

The survey also tried to find out whether there are particular products or services, for which respondents would consider companies' social responsibility engagement. Products and services were grouped and respondents had to make one or more choices among banks, hotels, and automotive companies, companies producing electronics or none of these sectors. Respondents also had the opportunity to state any other product or service. It came out that respondents would think most frequently on CSR when buying banking related services as indicated by 58% of the respondents. The second most frequent response was automotive companies (34%) followed by companies producing electronic products (31%) and hotels ranked fourth (21%). 10% of the respondents reported that they wouldn't consider CSR for any of the above mentioned products or service. 3% stated other products or services, the majority of responses being clothes, food and cosmetics companies.

Attribution towards switching to another brand

The aim of the last part of questions was to assess respondents' loyalty towards their favorite brand and the conditions under which respondents were willing to switch to another brand.

The purpose of the first question of this part was to find out which aspects of CSR are considered as the most important by consumers. In their responses, activities related to supporting poor people ranked first, indicating that it is the most important social cause which consumers would like corporations to be engaged in. The second most important aspect appears to be supporting children with special needs which ranked second and third was activities that minimize

environmental impact. The lowest percentage of responses, were given, for CSR activities related to anti-drug activities and supporting culture.

Respondents were then asked whether they would switch to another brand if they found out that another company, which produces the same product at the same quality, is engaged in CSR activities which they considered important while their favorites brand is not. Responses in Figure 10 showed that the majority of the respondents 91% answered that they would definitely switch to the other brand while only a small percentage (9%) of the respondents admitted that they wouldn't switch to the other brand.

Respondents' willingness to pay a price premium for a product which is produced by a socially responsible company rather than a cheaper product at the same quality produced by a company with no socially responsible activity was examined. Results revealed that the majority (71%) of the respondents indicated that this would depend on the price difference. At the same time, a percentage of 20% of the respondents answered that they would pay a price premium while only 10% of respondents admitted that they would not pay a price premium for a product produced by a socially responsible company.

Then, the questionnaire examined respondents' willingness to switch to another brand if they find out that the company producing their favorite brand participated in unethical behaviors. Results revealed that 97% of respondents indicated that they would definitely switch to a rival brand if the company producing their favorite brand participated in any of the activities mentioned above. On the other side only 3% indicated that they would not switch to a rival brand.

The purpose of the next question was to find out which unethical behaviors are considered as the most important by consumers. In their responses environmental pollution was the most important one while unfair treatment of employees, animal cruelty and unfair treatment of suppliers ranked second, third and fourth respectively.

With regards to respondents' willingness to pay a price premium in order to stop purchasing from a company involved in not socially responsible activities, 51% of the respondents reported that they would pay a price premium. 45% of the respondents' answered that they would pay a reasonable price premium and only 4% admitted that they would not pay a price premium.

All questions of the survey were further analyzed per age group and gender with no significant results.

Conclusions

A firm's engagement in CSR activities is believed by many to be linked to consumers' positive product and brand evaluation. The question which arises here is whether good corporate reputation related to ethical behavior is used as criterion in purchasing decisions, therefore, contributing positively to the financial performance of the firm through increased sales. Do consumers care about corporate social responsibility to a point where they would actually switch brands in order to support a good cause linked to a product or to boycott a product related to unethical behavior? Based on the research findings, Cypriot consumers seem to be positive towards the notion of CSR. There was a general consensus that corporations ought to give something back to the society indicating relatively high levels of expectations with regards to corporations' CSR engagement. This finding is aligned with the findings of *Bhattacharya and Sen 2004* and *Demetriou et al. 2010* who also, based on their studies, concluded that consumers expect corporations to be involved in CSR activities and play an important role in the social problems and particularly they expect more from them. Many consumers appeared to be relatively uninformed about ethical corporate behavior and activities among companies in Cyprus although they indicated that they were interested in becoming more knowledgeable. This finding is aligned with the findings of *Auger et al. 2003*, *Tian et al. 2011* and *Mohr et al. 2001* who concluded that much need to be done in order to enhance consumers' awareness with regards to companies' CSR engagement. Cypriot consumers are willing to make ethical purchases in order to promote products which are related to a good cause. They also appeared more willing to punish unethical activities than support positive actions and even pay a price premium in order to boycott a product related to bad behaviors rather than reward an ethical and responsible company. On the other hand, although Cypriot consumers have socially responsible attributes, this is not translated into positive purchase decision. This is aligned to the findings of *Boulstridge and Carrigan, (2000)* who came to the conclusion that consumers may respect ethical companies but it does not necessarily mean that they will buy their products. Cypriot Consumers' tendency to boycott unethical activities rather than reward socially responsible practices is also supported by the finding that more consumers are willing to pay a reasonable

price premium in order to punish rather than to reward. This is also supported by the finding of Demetriou et al. (2010). In this research Cypriot consumers expect corporations to be involved in activities which can eliminate Poverty and Environmental Pollution. According to the findings of Demetriou et al. (2010) which took place in periods of Economic prosperity in Cyprus, the most important social issues at that time were cancer, the need to protect Children's rights and anti-drug activities. The findings of this research indicate that Cypriot companies need to invest more on CSR since consumers expect higher levels of engagement in CSR activities which aligns to the findings of Demetriou et al (2010). There is also need for more effective communication and consumers' awareness with regards to their activities. This study also indicated that companies should avoid passing on hidden costs on their products or services as a result of investing money in CSR activities. Last but not least, through their CSR activities, Cypriot companies need to address current social issues and, as per the findings of this paper, due to the Economic crisis in Cyprus invest on activities for the elimination of poverty as a priority. The epilogue of the research is that CSR can contribute to CPF when corporations secure a competitive Marketing Mix including a competitive pricing strategy, superior quality of the actual and the augmented product along with a dynamic CSR strategy based on the current issues-problems of the Society.

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