

CORPORATE SOCIAL RESPONSIBILITY AND CUSTOMER SATISFACTION IN NEPAL

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ABSTRACT

This paper attempts to examine the impact of corporate social responsibility on customer satisfaction. Data has been collected through structured questionnaire from 365 respondents of different six sectors (banking, manufacturing, insurance, telecommunication, internet providers, and hotels). Descriptive and casual comparative research design have been used to achieve the objectives and descriptive as well as multiple regression models to analyze the data. It is observed that, relationship with community is the major area of social responsibility and to promote corporate image is the main reason that drive the company to adopt CSR practices. It is also deduced that all independent variables have positive and significant relationship with customer satisfaction in Nepalese enterprises.

KEYWORDS: *Customer Satisfaction, Economic CSR, Legal CSR, Ethical CSR, Philanthropic CSR, Customer-Centric CSR, Environmental CSR.*

INTRODUCTION

Corporate social responsibility (CSR) is also known as social responsibility. It is the idea that an organization should play a positive role in the community and consider the environmental and social impact of business decisions.

CSR has been gaining its popularity throughout the world, nationally and internationally. Inter-connected events and its impact around the world are increasing the importance of Corporate Social Responsibility in order to “build sustainable business, which needs healthy economies, market and communities” (Zubair&Pouline 2013)

Corporate social responsibility is traditionally broken into four categories:

- a. Environmental
 - b. Philanthropic
-

c. Ethical

d. Economic responsibility

Types of CSR

a. Environmental Responsibility

b. Ethical Responsibility

c. Philanthropic Responsibility

d. Economic Responsibility. ...

The Benefits of CSR

a. Better brand recognition

b. Positive business reputation

c. Increased sales and customer loyalty

d. Operational costs savings

e. Better financial performance

f. Greater ability to attract talent and retain staff

g. Organizational growth

h. Easier access to capital.

For last few decades, customer satisfaction is a major researchable issue for practitioners and academicians. Prior research has linked customer satisfaction with different predictors. Among them, issue of corporate social responsibilities (CSR) is an important factor that affects customer satisfaction, a challenging work, and it is also essential to retain customers. Customers of a company judge the CSR activities as they relate to their own interests. Endacott (2003) revealed consumers' evaluations of global firms' philanthropy varies across country and culture. Wood (1991) discussed three principles of corporate behaviors and outcomes: legitimacy, public responsibility and managerial discretion. Different research shows that awareness of CSR policies and practices have a positive impact on consumers' evaluations of product attributes and attitudes toward the organization. Similarly, CSR practices positively influence the organization's corporate reputation and customer loyalty. According to Wang (2020) CSR has a positive effect on customer satisfaction and Al-Ghamdi and Bedawi (2019) stated that CSR activities have a strong and positive impact on customer satisfaction and loyalty. McDonald and Rundle-Thiele (2008) concluded many enterprises have been spending millions and billions of money on CSR activities in order to build a stronger relationship with their stakeholders, especially, customers. Creyer and Ross (1996) examined that cause-related marketing is less effective than employee volunteerism.

Likewise, Noamene and Elouadi (2015) observed that philanthropic responsibility is the most influential factor followed by legal responsibility and then economic and ethical responsibilities. Additionally, Wu and Lin (2014) revealed economic and ethical factors have positive and significant relationship with brand trust and brand satisfaction. Further, Lee (2018) observed a positive effect of legal and economic corporate social responsibility on customer loyalty and a

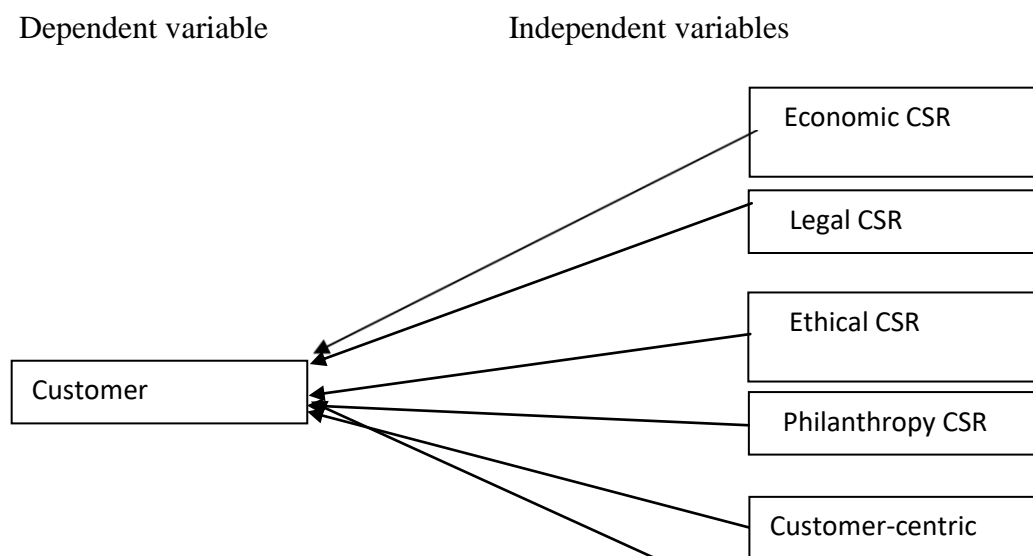
partial mediating effect of customer satisfaction between corporate social responsibility and customer loyalty. However, Ali et al. (2010) concluded that customers pay more attention to pricing strategy than CSR activities. Further, literatures revealed that environmental contribution had a positive effect on customer satisfaction (Jermisittiparserta et al., 2019; Anastasiou, 2015; Kumari et al., 2013; Moynihan, et al., 2002).

Nowadays, CSR is becoming popular in Nepal and Nepalese enterprises are taking considerations on giving back to foster their image. Upadhyay & Dhungel (2013) stated that the most commonly reported CSR activities involve education, training, donations to different non-profit making organizations etc. and suggested that uniform standards and framework for reporting of CSR activities should be developed which could be applied with other banks and industries and with international levels. Similarly, Nepalese managers consider philanthropy, for example, donations and occasional charitable activities, as the means of CSR (Adhikari, 2013). Moreover, research has been done concerning the effect of CSR on customer satisfaction in western context; however, limited research has been conducted in the context of Nepal. Hence, this study is an additional attempt to elucidate the context of CSR in Nepal.

Conceptual Framework

The conceptualization of CSR is based on the theoretical framework developed by Carroll (1911) where four dimensions (economic, legal, ethical, and philanthropy) of CSR were proposed. However, two more dimensions were then added to Carroll's framework and that is customer-centric CSR and environmental CSR. In this conceptual framework, customer satisfaction is a function of six CSR elements namely economic CSR, legal CSR, ethical CSR, philanthropy CSR, customer-centric CSR and environmental CSR. How these six elements of CSR affect customer satisfaction is examined in this paper. The conceptual framework of this research is illustrated below showing the relationship of customer satisfaction with every CSR elements for identifying which elements have high impact on customer satisfaction in Nepalese enterprises.

Figure 1. Schematic Diagram of influence of CSR practices on Nepalese enterprises



Environmental CSR

Research hypotheses

This study has set the following alternatives hypotheses:

H₁: There is a significant positive relationship between legal CSR and customer satisfaction.

H₂: There is a significant positive relationship between economic CSR and customer satisfaction.

H₃: There is a significant positive relationship between ethical CSR and customer satisfaction.

H₄: There is a significant positive relationship between philanthropic CSR and customer satisfaction.

H₅: There is a significant positive relationship between customer-centric CSR and customer satisfaction.

H₆: There is a significant positive relationship between environmental CSR and customer satisfaction.

Methodology

Descriptive research design has been used to accumulate the facts to involve the systematic collection and presentation of data and give a clear picture of the fundamental issues associated with various CSR dimensions affecting customer satisfaction. Casual comparative research design has also used to determine the consequences of differences that already exist between the variables and the relationship between dependent variable (customer satisfaction) and independent variables (economic CSR, legal CSR, ethical CSR, philanthropy CSR, customer-centric CSR, environmental CSR). Structured questionnaires distributed to 450 respondents but only 365 usable responses of different six sectors (banking, manufacturing, insurance, telecommunication, internet providers, and hotels) have been used to obtain respondent related information through tick mark questions, ranking questions and five point Likert scale questions (1strongly agree to 5 strongly disagree). The relationship between dependent and independent variables are analyzed through econometric model. The model is:

Model

$$CS = \alpha + \beta_1 ECO + \beta_2 LE + \beta_3 ETH + \beta_4 PH + \beta_5 CC + \beta_6 EN + \varepsilon$$

Where, *CS* = Customer Satisfaction, *ECO* =Economic CSR, *LE* = Legal CSR, *ETH* =Ethical CSR, *PH* = Philanthropic CSR, *CC* = Customer-Centric CSR, *EN*= Environmental CSR, α = Intercept, ε = error term, and $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ and β_6 are the beta coefficients of the explanatory variables to be estimated.

Data Analysis**Responses Related to Ranking Questions**Areas of social responsibility

Respondents are requested to rank the areas of social responsibility for Nepalese enterprises should focus more where relationship with community is in first rank with mean score of 2.51 followed by relationship with clients and suppliers with mean score of 2.92 and environmental protection is in third rank with mean score of 2.99. Similarly, policy towards employees and

governance and dialogue with the stakeholders are in fourth and fifth ranks with mean score of 3.11 and 3.49 respectively.

Reasons that move the company to adopt CSR practices

Regarding the reasons that move the company to adopt CSR practices as per its importance, most of the respondents have ranked first for promote corporate image with mean score of 2.53 followed by commercial advantages to new markets with mean score of 2.95. Similarly, benefit in relationship with finance institutions and community is in third rank with mean score of 3.37 whereas increase of efficiency with mean score of 3.79 is in fourth rank. Respondents have ranked fifth to pressure from consumer association and media with mean score of 4.11 and greater employee satisfaction with mean score of 4.51 is in sixth rank that move the company to adopt CSR practices.

CSR practices playing a major role in customer satisfaction

While asking respondents about the different dimensions of CSR practices that play a major role in customer satisfaction, most of them have ranked first for customer-centric CSR with mean score of 2.63 and ethical CSR is in second rank with mean score of 2.98. The mean score for environmental CSR is 3.23 that is in third rank. Similarly, respondents have ranked four for economic CSR with mean score of 3.64 and legal CSR with mean score of 4.03 is in fifth rank. Likewise, respondents have given last priority for philanthropic CSR with mean score of 4.72 and ranked as sixth.

Descriptive Statistics

Mean value of the economic CSR ranges from minimum value of 1.61 to maximum value of 2.04 and weighted average is 1.82 that proves economic CSR practices has been executed properly and Nepalese enterprises are more focused on increasing their customer satisfaction level through enhancing the economic CSR practices. Similarly, mean value off legal CSR ranges from minimum value of 2.11 to maximum value of 2.50 and weighted average is 2.31 which states the legal CSR practices has been executed properly and enterprises are more focused on increasing their customer satisfaction level through enhancing it. Likewise, mean value of ethical CSR practices ranges from minimum value of 2.22 to maximum value of 2.52 and weighted average is 2.37 which indicates that the ethical CSR practices has been executed properly and enterprises are more focused on increasing their level of customer satisfaction through enhancing the ethical CSR practices.

Furthermore, mean value of the philanthropic CSR practices ranges from minimum value of 2.49 to maximum value of 2.69 and weighted average is 2.58 that shows it has been executed properly and enterprises are more focused on increasing their customer satisfaction level through enhancing the philanthropic CSR practices. Likewise, mean value of the customer-centric CSR practices ranges from 2.23 to maximum value of 2.58 and weighted average is 2.45 that reveals the customer-centric CSR practices has been executed properly and enterprises are more focused on increasing their customer satisfaction level through enhancing the customer-centric CSR practices. Additionally, mean value of environmental CSR ranges from minimum value of 2.61 to maximum value of 3.31 and weighted average is 2.97 that states the environmental CSR practices has been executed properly and is focused on increasing their customer satisfaction level through enhancing the environmental CSR practices. Moreover, mean value of the

customer satisfaction ranges from minimum value of 2.41 to maximum value of 2.63 and weighted average is 2.53 that indicates the customer satisfaction plays important role for Nepalese enterprises and they must focus on CSR practices.

Measurement of Relationship

TABLE 1: PEARSON'S CORRELATION MATRIX

	Mean value	S.D.	ECO	LE	ETH	PH	CC	EN	CS
ECO	1.82	0.59167	1						
LE	2.31	0.86317	0.408	1					
ETH	2.37	0.80312	0.291	0.531	1				
PH	2.58	0.88103	0.109	0.332	0.221	1			
CC	2.45	0.94121	0.342	0.381	0.611	0.222	1		
EN	2.97	0.96115	0.110	0.390	0.438	0.578	0.378	1	
CS	2.53	0.77302	0.309	0.562	0.649	0.294	0.619	0.441	1

The results of table 1 show customer satisfaction is positively correlated with all independent variables which indicates if Nepalese enterprises adopt the CSR practices that leads to increase the level of customer satisfaction.

Table 2: Regression Results

This table presents the regression results using the regression model: $CS = \alpha + \beta_1 ECO + \beta_2 LE + \beta_3 ETH + \beta_4 PH + \beta_5 CC + \beta_6 EN + \varepsilon$. Where, CS = Customer Satisfaction, ECO =Economic CSR, LE = Legal CSR, ETH =Ethical CSR, PH = Philanthropic CSR, CC = Customer-Centric CSR, EN= Environmental CSR, α = Intercept, ε = error term, and $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ and β_6 are the beta coefficients of the explanatory variables to be estimated. The reported results also include the values of F-statistics (F), Adjusted R^2 and standard error of estimates (SEE).

Model	Constant	Regression Coefficient of						Adj. R ²	SE	F
		ECO	LE	ETH	PH	CC	EN			
1	1.79 (7.66)* **	0.411 (3.252)***						.098	0.815	11.432
2	1.401 (7.682) ***		0.499 (6.669)***					.287	0.645	45.367

3	1.03 (5.611) ***		0.638 (8.54 1)***		.398	0.60 5	73.5 17
4	1.877 (7.959) ***		0.257 (2.98 1)***		.078	0.74 1	9.34 5
5	1.338 (8.031) ***		0.504 (7.73 8)***		0.412	0.70 9	60.3 11
6	1.496 (6.677) ***			0.363 (4.90 1)***	0.243	0.71 6	23.8 79
7	1.248 (5.438) ***	0.132 (1.12 2)	0.461 (5.64 8)***		0.298	0.70 3	23.3 15
8	0.812 (3.571) ***	0.177 (1.73 2)	0.603 (7.77 5)***		0.511	0.60 4	39.8 31
9	1.287 (4.301) ***	0.38 (3.02 8)***	0.232 (2.74 8)***		0.202	0.69 5	9.38 7
10	1.152 (5.26)* **	0.152 (1.35 7)	0.471 (6.83 2)***		0.402	0.58 8	31.1 03

Notes:

- i) Figures in parentheses are t-values.
- ii) * * * denotes that the results are significant at 1% level of significance.
- iii) * * denotes that the results are significant at 5% level of significance.
- iv) Customer satisfaction as dependent variable.

The table 2 reveals that beta coefficient for economic CSR practices is positive with customer satisfaction that indicates higher the economic CSR practices, higher would be the customer satisfaction. The study also supports that beta coefficient for legal CSR practices is positive and significant for customer satisfaction that states higher the legal CSR practices, higher would be the customer satisfaction. Similarly, it is observed that the beta coefficient for ethical CSR

practices is positive and significant with customer satisfaction which shows higher the ethical CSR practices, higher would be the customer satisfaction level. Likewise, the beta coefficient for philanthropic CSR practices is positive and significant with customer satisfaction that proves higher the philanthropic CSR practices, higher would be the customer satisfaction level. Further, positive and significant beta coefficient for customer-centric CSR practices and environmental CSR practices with customer satisfaction reveals that higher the customer-centric CSR and environmental CSR higher would be the customer satisfaction.

On the basis of results shown in the table 2, economic CSR, legal CSR, ethical CSR, philanthropic CSR, customer-centric CSR and environmental CSR have significant and positive relation with customer satisfaction, which supports H1 (legal CSR is positively related with customer satisfaction), H2 (economic CSR is positively related with customer satisfaction), H3 (ethical CSR is positively related with customer satisfaction) H4 (philanthropic CSR is positively related with customer satisfaction), H5 (customer-centric CSR is positively related with customer satisfaction) and H6 (environmental CSR is positively related with customer satisfaction).

CONCLUSION

Higher share of CSR firms in the economy means higher economic growth. Organization performance of CSR positively affects economic growth. Thus, it is observed that relationship with community and relationship with clients and suppliers are the major areas of social responsibility whereas promoting corporate image is the main driver behind the company to adopt CSR practices. Similarly, customer centric CSR practices play a major role in customer satisfaction. It is also concluded that the economic CSR, legal CSR, ethical CSR, philanthropic CSR, customer-centric CSR and environmental CSR have positive and significant relationship with customer satisfaction in Nepalese enterprises.

Implication

Every organization should incorporate CSR into their strategic decision-making process in order to build a good reputation and to motivate employees. It critically addresses the management aspects that require managers to invest in activities that look after employees, since they are great assets in the organization. It is evident that improving CSR practices can maintain its competitive edge through customer satisfaction. The significant findings of this study are that customers play vital role in promoting corporate image through CSR.

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