Corporate Social Responsibility and Brand Equity in Industrial Marketing

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Abstract
Although both corporate social responsibility and brand equity have been extensively studied in marketing research, there are very little about the relationships between these two important concepts in industrial marketing. The purpose of this research is to empirically test the relationship between corporate social responsibility in five dimensions and brand equity. For this purpose a structured questionnaire was developed to collect data and totaling 101 questionnaires of Industrial corporate managers were analyzed. The conceptual model was tested using structural equation modeling. Our findings show social performance has a positive effect on brand equity. So managers can increase brand equity by using corporate social responsibility as a strategic tool for positioning differentiation.

Introduction
Corporate social responsibility (CSR) is receiving increasing attention, especially in recent decades. For example, more than 50 percent of global executives identify CSR as their top priority (The Economist, 2008). The implementation of a CSR policy may generate a trusting relationship between the company and stakeholders that causes stakeholders to become committed to the organization through actions such as customer loyalty, stockholder capital investments, and supplier investments (Garbarino & Johnson, 1999; Maignan & Ferrell, 2004; Sen, Bhattacharya, & Korschun, 2006).

CSR refers to a company's activities and status related to its perceived societal or stakeholder obligations (Brown and Dacin, 1997). Underlying the interest and concern for CSR is the fact that firms do not operate in a vacuum. Rather they can be viewed as “open systems” dependent on some actors and influential to others. Through exchanging output with the environment, for example the customers, companies impact and transform society. In order to survive and prosper, sufficient resources must be retained to at least cover costs, and excess profit is considered advantageous. In other words they must be effective. Firms, in this way, work diligently at attaining their goals. Their activities are planned and conducted by motivated actors with self-interests. Literature suggests that CSR actions can lead to reputational advantages (e.g. Fombrun and Shanley, 1990; Orlitzky et al., 2003), not much has been done to
study the effects of CSR on brand equity. Brand equity entails “the additional value that accrues to a firm because of the presence of the brand name that would not accrue to an equivalent unbranded product” (Keller and Lehmann, 2006, p. 745). Despite the interrelation between reputation and brand, the two concepts are not synonymous. Reputation centers primarily on the company, whereas brand is customer-oriented (Ettenson and Knowles, 2008). Reputation may create a favorable context for product evaluation but is not a sufficient condition for brand value enhancement. A dearth of empirical support exists for the proposition that CSP improves brand equity (Brady, 2003; Middlemiss, 2003).

The key research question in this study concerns the investigation into the effects of CSR practices with different stakeholders on BE in industrial marketing, with an emphasis on the role played by credible CSR initiatives. We first investigate whether CSR efforts impact BE. Second, we aim to assess which CSR efforts have the strongest effects on BE.

In order to achieve the above-mentioned objective, this paper is organised into five sections. The first section presents a theoretical foundation for this study by reviewing the extant literature on CSR, particularly in the context of marketing and brand equity. The second section describes methodological approach and measurement techniques. In the third section, the results are outlined. The fourth section provides a discussion of the findings along with the subsequent implications. The last section identifies the limitations of this study and the areas for future research.

Corporate Social Responsibility (CSR) in marketing context

The National Association of Marketing Teachers, a predecessor of the American Marketing Association (AMA) adopted the first official definition of marketing in 1935. AMA adopted the definition in 1948, and again in 1960 when the association revisited the definition and decided not to change it. This original definition stood for 50 years, until it was revised in 1985 to:

Marketing is the process of planning and executing conception, pricing, promotion and distribution of goods, ideas and services to create exchanges that satisfy individual and organizational goals.

This definition views marketing as a transaction between the provider and the receiver of the product, where the provider satisfies the goals of the receiver and obtains some type of compensation in return. The definition emphasizes the four components of the marketing mix (the four Ps). It should be noted that the definition goes beyond commercial transactions and includes for example politics (where the product is a political candidate or political platform rather than goods and services) and charities (where a sense of purpose or doing-right is received in exchange for monetary contributions). The 1985 definition remained unchanged for nearly 20 years, until it was changed in August 2004 to:

Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

The change of definition reflects a shift in perspective in several ways. The new definition signifies a move from transaction orientation to emphasis on value for the customer, which implies a focus on end-result instead of exchange. The new definition is also more focused in the sense that it targets the customer and highlights that marketing should be customer-centric rather than focus on brand/product or any of the other components of the marketing mix. In
addition, the introduction of stakeholders implies a shift from a dyadic perspective (i.e. organization and individual) to a triadic perspective (i.e. organization, customers and other external stakeholders) (Terje, 2008).

The concept of CSR is blurred, fuzzy (Lantos, 2001) and characterized by three major challenges. Firstly, the definition and dimensions of CSR vary. In a marketing context there is still no clear definition of what social responsibility of marketing is (Carrigan and Attalla, 2001). Lack of definition implies that investigation of CSR in marketing easily holds a myopic view with a focus on limited dimensions of CSR (Maignan and Ferrell, 2004). Different conceptual entities restrict comparison and integration of definitions. Whereas some scholars focus on businesses in general, others apply the individual firm or the decision maker as unit of analysis. Some are normative while others hold an instrumental perspective focusing on benefits (Maignan and Ferrell, 2004). Furthermore there is a tendency to focus on very limited aspects and dimensions of CSR in empirical studies of CSR (Maignan et al., 2005). This perspective thus represents a shift from what Armstrong (1977) refers to as the manager’s “stockholder role” to a “stakeholder role”, with implications for the likelihood of irresponsible acts. The legitimacy of social responsibility is a second challenge when applying the marketing context. Its legitimacy is highly debatable when, for example, publicly held companies undertake “social responsible” activities that might restrict profits (Lantos, 2001), and disagreement in how social responsibility is actually achieved (Carrigan and Attalla, 2001). Crook (2005) argues that governments, which are accountable to all citizens, are the proper guardians of the public interest, while the proper business of business is business. His argument is that managers, acting in their professional capacity, are not competent to concern themselves with the public good. They lack the democratic credentials and their day jobs should leave them no time to even think about it. Finally, the corporate benefit of CSR can be questioned, which is both affected and affects the precision of the construct. Studies of CSR reveal little about implementation and likely benefits of CSR (Maignan et al., 2005). Some even claim that most customers pay little heed to ethical considerations in their purchase decision-making behavior (Carrigan and Attalla, 2001), and raise the dilemma that customers of today seem to reward unethical behavior and penalize ethical business behavior (Titus and Bradford, 1996; Carrigan and Attalla, 2001).

The CSR construct embraces two dimensions of decision making, responsible and irresponsible acts. The seminal work of Armstrong (1977) introduces “social irresponsibility” as a more useful mode of addressing “social responsibility”. The vast majority of studies, however, apply corporate social responsibility (CSR) in addressing both responsibility and its negation. The CSR construct includes at least three aspects of the relationship between the company and the society: How the conduct of business reflects ethical considerations, how the business operations affect the environment, and finally, the extent to which the operations interfere with established social and human rights (Vaaland and Heide, 2005).

Lantos (2001, 2002) suggests three archetypes of CSRs namely, ethical, altruistic and strategic. Ethical CSR constitutes a minimum level of responsibility to society, and implies that the company avoids harm or social injuries even to exceed the formal legal duties if necessary. Altruistic CSR corresponds with Carroll’s (2000) philanthropic responsibilities and aims at contributing to the good of various social stakeholders, even if the cost of those activities sacrifices company profit. Strategic CSR implies fulfilling philanthropic responsibility, but with
the company’s benefit in terms of positive publicity and goodwill as core driver. Activities sustaining strategic CSR are assumed to improve corporate image and increase motivation and loyalty primarily among employees and customers, but also others such as suppliers and retailers (Lantos, 2002). In a marketing context, strategic CSR is particularly relevant because of its focus on company benefits in relation to stakeholder groups (e.g. customers). By inspecting the variety of CSR definitions we observe emphasis on; first, corporate benefit (e.g. Lantos, 2002), second, stakeholders (e.g. Donaldson and Preston, 1995; Jones, 1995; Wood and Jones, 1995), third, concern for both responsible and irresponsible acts (Armstrong, 1977), fourth, ethical, environmental and social phenomena (Vaaland and Heide, 2005). Based on these characteristics and the most recent AMA definition of marketing, we propose the following definition: Corporate social responsibility is management of stakeholder concern for responsible and irresponsible acts related to environmental, ethical and social phenomena in a way that creates corporate benefit.

**Brand Equity**

The 1980s marked a turning point in the conception of brands. Management came to realize that the principal asset of a company was in fact its brand names. Several articles in both the American and European press dealt with the discovery of ‘brand equity’, or the financial value of the brand. In fact, the emergence of brands in activities which previously had resisted or were foreign to such concepts (industry, banking, the service sector, etc) vouched for the new importance of brands. This is confirmed by the importance that so many distributors place on the promotion of their own brands.

For decades the value of a company was measured in terms of its buildings and land, and then its tangible assets (plant and equipment). It is only recently that we have realized that its real value lies outside, in the minds of potential customers. In July 1990, the man who bought the Adidas company summarized his reasons in one sentence: after Coca-Cola and Marlboro, Adidas was the best-known brand in the world (Kapferer, 2008).

In the last two decades, research on brand equity or the value with which a brand name endows a product (Farquhar 1989) has flourished. Within this stream of research, numerous studies have examined the value brands create for investors and manufacturers and ultimately also for consumers (for relevant reviews, see Keller and Lehmann 2006).

In line with Aaker (1991, p. 15), who explicitly takes into account that brands create value for all members of the value chain, we define BE as “a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or that firms customers”.

Brand building literature interprets branding effects in terms of consumers’ “mindsets” toward the brand (i.e. what they know and how they feel about the brand), as well as how those mindsets affect their behavior (Aaker and Joachimsthaler, 2000; Keller and Lehmann, 2003). In this light, Hoeffler and Keller (2002) suggest that corporate societal marketing programs can affect brand equity by building consumer awareness, enhancing brand image, establishing brand credibility, evoking brand feelings, creating a sense of brand community, and eliciting brand engagement. Studies further show that CSR programs can result in favorable evaluations (Brown and Dacin, 1997), stronger consumer identification (Sen and Bhattacharya, 2001), and increased customer satisfaction (Luo and Bhattacharya, 2006). Thus, these positive consumer
mindsets resulting from CSR initiatives may generate rewards in the form of brand equity. Erdem and Swait (1998) propose that firms can use brands as market signals to inform consumers about product attributes (e.g., product quality) and ensure that product Corporate social performance and claims appear credible. The authors find that the credibility of a brand as a signal can increase perceived quality, decrease perceived risks associated with a product, and increase consumer expected utility. In turn, the increase in consumer expected utility may enhance brand equity. CSR scholars propose that firms’ social activities send a signal of a non-self-serving orientation, which may generate positive attributions or moral capital for a firm (Godfrey, 2005; Godfrey et al., 2009). The CSR-based moral capital leads to increased brand credibility among customers (Luo and Bhattacharya, 2009). Thus, CSP may positively affect brand equity by enhancing the credibility of brands as market signals. Thus, we propose the following hypothesis:

H1. Corporate social performance positively effects brand equity

In our discussion of the primary effect of CSR on BE, we consider CSR as one broad, overarching construct. However, as already noted, CSR involves multiple initiatives to different stakeholders (Sen et al., 2006). In this study, we specifically distinguish CSR initiatives to community, customers, shareholders (labeled as corporate governance), employees, and suppliers. These five stakeholders are frequently mentioned as being important in different studies on CSR (e.g., Bhattacharya & Sen, 2004; Orlitzky et al., 2003; Sen et al., 2006).

Thus far, no studies have explicitly studied the differential effects of CSR dimensions on these different stakeholders. However, the meta-analytic results of Orlitzky et al. (2003) suggest differential effects between CSR initiatives. They specifically report that philanthropic donations aimed at community were more strongly related to financial performance than all other CSR initiatives studied. Wood and Jones (1995) argue that differential effects of CSR dimensions on performance may occur because the expectations and evaluations of CSR may differ from one stakeholder group to another. They further argue that there should be no mismatch between the CSR stake-holder measures used and the studied outcome measure. Hence, they suggest the existence of a positive relationship between CSR dimensions to market oriented stakeholders (i.e., customers) and market measures.

We thus hypothesize as follows:

H2. Dimensions of CSR i.e.; community, customers, investors, employees, and suppliers each have a positive effect on brand equity.

Methodology

Sampling and data collection
We see top managers as professional marketers possessing profound knowledge of brands and CSR. Hence, they should be able to give accurate statements about the concepts. So a self-administered questionnaire was distributed to a sample of 200 top managers of industrial companies in Markazi Province, Iran. After eliminating those completed incorrectly or missing too many questions, Totaling 101 usable questionnaires were collected.
Measures
A questionnaire with closed-response questions using five-point-rating scales was developed. Respondents are asked to indicate their levels of agreement from “1” (strongly disagree) to “5” (strongly agree).
All measurement items developed based on the review of the most relevant literature on marketing and shopping behaviors (Table I & Table II).
Validity was tested through a variation of the whereby each item is qualified by a panel of experts as “clearly representative”, “somewhat representative” or “not representative” of the construct of interest. An item was retained if a high level of consensus was observed among the experts.
The internal consistency of the questionnaire was tested through reliability analysis using Cronbach’s alpha. Reliability estimates for the construct variables are, community (0.70), customers (0.78), investors (0.92), employees (0.83), suppliers (0.77) and brand equity (0.75) revealing a high degree of reliability. All reliability results exceeded 0.70 limit of the acceptability. The Cronbach Alpha indicator, considering a minimum value of 0.7. All items were adjusted to the required levels.

Table I: Definition of Independent Variables

<table>
<thead>
<tr>
<th>Independent Variables (CSR dimensions)</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
<td>1 Local communities' programs</td>
</tr>
<tr>
<td></td>
<td>2 Formal policy on local community involvement</td>
</tr>
<tr>
<td></td>
<td>3 Management responsibility for local community affairs</td>
</tr>
<tr>
<td></td>
<td>4 Formal volunteer programs</td>
</tr>
<tr>
<td></td>
<td>5 Programs for consultation with local communities</td>
</tr>
<tr>
<td></td>
<td>6 Percentage of donations directed at local communities</td>
</tr>
<tr>
<td>Customer</td>
<td>1 A formal policy statement noting customer issues</td>
</tr>
<tr>
<td></td>
<td>2 Formal policy on product quality</td>
</tr>
<tr>
<td></td>
<td>3 Formal policy on marketing/advertising practices</td>
</tr>
<tr>
<td></td>
<td>4 Formal policy on product safety</td>
</tr>
</tbody>
</table>
| Corporate governance | 1 A formal policy statement noting customer issues  
2 Formal policy on product quality  
3 Formal policy on marketing/advertising practices  
4 Formal policy on product safety  
5 Board responsibility for customer satisfaction  
6 Facilities with quality certification  
7 Marketing practices to satisfy customers |
|----------------------|---------------------------------------------------|
| Employees            | 1 Policies/principles regarding employees  
2 Formal policy statement on health and  
3 Formal policy on diversity/employment equity  
4 Formal policy on freedom of association  
5 Formal policy statement on child/forced labor  
6 Formal policy statement on working hours  
7 Formal policy statement on wages  
8 Board responsibility for human resources issues  
9 Specific health and safety targets  
10 Diversity/equal opportunity programs  
11 Work/life programs  
12 Training programs  
13 Participative management programs |
| Suppliers            | 1 Code of conduct for contractors  
2 Board responsibility for contractors' human rights |
Results

Measurement model

For data analysis before testing the hypotheses we used Confirmatory factor analysis to evaluate the Convergent and discriminant validities of the measures. All of the items had standard t-value and weren’t remove due to the standard t-values (>1.96) at significance level of 0.05. The average variance extracted for each construct was greater than the recommended threshold of 0.50. The factor loading values for each individual indicator to its respective latent variable were highly and all loading coefficients were above 0.50. These results provided evidence that the measured items robustly represented the underlying constructs, showing satisfactory convergent validity. In addition, the average variance extracted for each construct was greater than the shared variance between that construct and all other constructs, verifying discriminant validity. Therefore, the sample of this study revealed satisfactory reliability and validity of the scales. Although the $\chi^2$ was significant $\chi^2=304.59$, df=263, $p<0.05$, the other goodness-of-fit

<table>
<thead>
<tr>
<th>Dependant Variable</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band equity</td>
<td>1 Makes sense to use this brand instead of other</td>
</tr>
<tr>
<td></td>
<td>2 Prefer to use this brand even have same features</td>
</tr>
<tr>
<td></td>
<td>3 Prefer to use this brand if another is as good</td>
</tr>
<tr>
<td></td>
<td>4 Seems smarter to use this brand if another is not different</td>
</tr>
</tbody>
</table>
indices for the measurement model showed an acceptable fit (CFI=0.80, IFI=0.89, RMSEA=0.059). Table III presents means, standard deviations, AVE and correlations among the constructs.

Table III. Integrative model statistics

<table>
<thead>
<tr>
<th>CSR dimension</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>AVE</th>
<th>community</th>
<th>customers</th>
<th>investors</th>
<th>employees</th>
<th>suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>community</td>
<td>4.34</td>
<td>1.32</td>
<td>0.56</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>customers</td>
<td>3.96</td>
<td>1.43</td>
<td>0.66</td>
<td>0.54</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>investors</td>
<td>3.88</td>
<td>1.01</td>
<td>0.45</td>
<td>0.33</td>
<td>0.62</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td>4.31</td>
<td>1.29</td>
<td>0.67</td>
<td>0.75</td>
<td>0.67</td>
<td>0.44</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>suppliers</td>
<td>3.22</td>
<td>1.04</td>
<td>0.71</td>
<td>0.67</td>
<td>0.55</td>
<td>0.51</td>
<td>0.32</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Structural model

After insurance of good fitness of model, The hypothesized model was tested via structural equation modeling. All parameter estimates for the structural paths were positive and significant. As proposed, the effects dimensions of CSR (community, customer, Corporate governance, Employees, Suppliers) on brand equity were, respectively, 0.62 (t =2.96), 0.43 (t =4.31), 0.73 (t =3.16), 0.53 (t =5.31) and 0.50 (t =3.65), p=0.05, which support H1. And effect of CSR on brand equity was, 0.52 (t =3.23) which supported H2.

Discussion

In this paper, we analyze the effect of different dimensions of a firm's corporate social responsible (CSR) on the creation of brand equity (BE) in industrial marketing. Studying effects of CSR and its dimensions on brand equity is a novel and new topic in marketing. Our study, using top managers of 101 industrial companies, shows the strong effects of CSR dimensions directed at different stakeholders on BE.
First, we find that CSR positively affects industrial brand equity. This result is an important extension of the previous literature on CSR, as it is the first study to actually show this effect in an industrial setting. This result confirms prior studies showing that CSR affects firm performance (e.g., Luo & Bhattacharya, 2006; Margolis & Walsh, 2003; Orlitzky et al., 2003). Moreover, we also show that CSR dimensions generate a positive effect on industrial brand equity.
Limitations and future studies

This exploratory study was conducted to investigate relationships between CSR and BE. For this purpose have used the data collection from a geographical area. So generalizations of the findings of this study to other industrial companies are limited due to the differences in companies in various places. Future research could compare different companies across different places. Second, this study investigated CSR and BE relationships in general, not a specific industrial company category for example SMEs or MNEs. Third, future research should replicate this study in other provinces cultural settings.

References