Effect of Corporate Social Legal Responsibility on Customer Loyalty: A Survey of Telecommunication Firms in Uasin Gishu County, Kenya

Author's Details: [1] Nevile Ogetii Marita [2]Nelly Nyatichi Marita
[1][2]Department of Business Management, School of business and economics, Moi University, Eldoret, Kenya.

Abstract
Corporate Social Responsibility (CSR) has been used by many companies to gain public confidence through providing essential commodities of some high value to a customer, particular in telecommunication industry where only one mobile operator has dominated the market share for the last one decade. The study objective was to determine the effect of legal responsibility on customer loyalty. Carroll model and Stakeholder theory were used to explaining the study. The study employed an explanatory research design. The study targeted all customers of telecommunication companies in Uasin Gishu County. Stratified sampling was used to group the population while the systematic sampling technique was used to obtain 400 customers. A structured questionnaire was used for data collection. The reliability of the questionnaire was checked using Cronbach Alpha test. Data was purely quantitative. Data collected were coded and analyzed using both descriptive and inferential statistics. The study found that CSR legal initiatives positively impact on customer loyalty. It's therefore important for telecommunication firms to act as good citizen in all matters beyond the law, operate under the laws and regulations and ensure adequate steps are taken against all forms of discrimination. Telecommunication firms should engage in CSR in order to create a positive attitude on their customers to enhance loyalty.

Keywords: *Corporate Social Responsibility, Legal responsibility, Customer loyalty, and Telecommunication firms*

Introduction

CSR initiatives constitute a key element of corporate identity that can induce customers to identify for instance; customers through CSR can develop a sense of connection with the company. CSR initiatives can create benefits for companies by increasing consumers' identification with the corporation support for the company (Drumwright, and Bridgette, 2004). Firms with satisfied customers tend to enjoy greater customer loyalty, positive word of mouth and customer's willingness to pay premium prices, all of which can increase a firm's market value as well as achieving higher levels of cash flows (Bolton and Drew, 1991; Szymanski and Henard, 2001; Homburg *et al.*, 2005).

In Kenya, Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community and civil society in general, both now and in the future. The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival, and profitability are being swept away (Buchholtz, 2006). Some of the positive outcomes to the company as a result of CSR include; improved financial performance, lower operating costs enhanced brand image and reputation, increased sales and customer loyalty, greater productivity and quality, more ability to attract and retain employees, product safety and decreased liability. Benefits to the community and the general public include; charitable contributions, employee volunteer programmes, corporate involvement in community education, employment and homelessness programmes (Feltus and Petit, 2009). Consequently, environmental benefits are; greater material recyclability, better product durability, and functionality, greater use of renewable resources, integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labeling.

Legal Responsibilities and Customer Loyalty

Legal component refers to a company complying with the laws and regulations which they operate (Swaen and Chumptaz, 2008). The most widely accepted position on the legal purpose of the corporation known as shareholder primacy (Fisch 2006; Ehrlich 2005) was articulated by Milton Friedman in 1970: who stated that in a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has a direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom (Friedman, 1970; Reinhardt *et al.*, 2008).

Actually, the laws governing CSR are in existence in Kenya, therefore, it is at the mercy of companies to act in a socially responsible manner. CSR activities are seen as a public relations tool in creating customer loyalty since customers are more interested in companies that care for them. They will also extend kind words about the company and they will stick to the products of the company. Loyal customers are seen as less expensive to manage and maintain therefore managers over the years have practiced CSR to maintain a better relationship with the public and customers (Bowen and Chen, 2001).

Actually, tax laws act as a motivating tool toward a firm acting in a socially responsible manner. Deductions from the taxable income on philanthropic responsibilities encourage many firms to engage in CSR since that income will not attract any tax. Researchers have tried to investigate the effect of tax law deductions on corporate philanthropy. Tax laws act as a determinant on how firms are to engage CSR (Campbell, 2004). Therefore state regulation in the form of taxes affects the extent to which corporations behave in socially responsible ways. However in Kenya tax laws in regard to CSR are not established. It is the mercy of organizations to act in a socially responsible manner.

LITERATURE REVIEW

Legal Responsibilities and Customer Loyalty

Legal component refers to a company complying with the laws and regulations which they operate (Swaen and Chumptaz, 2008). The most widely accepted position on the legal purpose of the corporation known as shareholder primacy (Fisch 2006; Ehrlich 2005) was articulated by Milton Friedman in 1970: who stated that in a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has a direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom (Friedman, 1970; Reinhardt *et al.*, 2008).

Actually, tax laws act as a motivating tool toward a firm acting in a socially responsible manner. Deductions from the taxable income on philanthropic responsibilities encourage many firms to engage in CSR since that income will not attract any tax. Researchers have tried to investigate the effect of tax law deductions on corporate philanthropy. Tax laws act as a determinant on how firms are to engage CSR (Campbell, 2004). Therefore state regulation in the form of taxes affects the extent to which corporations behave in socially responsible ways. However in Kenya tax laws in regard to CSR are not established. It is the mercy of organizations to act in a socially responsible manner.

Theoretical Framework

Stakeholder Theory

Stakeholder theory was brought forward by R. Edward. This theory is concerned with evaluating the various stakeholders that the firm is perceived to be responsible to thus it's a theory of organizational management and business ethics. It's mainly concerned with morals and values while managing an organisation. According to this theory, a firm has various stakeholders to whom it is responsible. Therefore it is mainly concerned with evaluating the various parties that have a claim over the firm. A firm is a collection of various stakeholders who have diverse requirements from the firm (Freeman, 1984). This theory models the various stakeholders into groups with diverse interests who are to be taken into consideration by the company while devising some ways of incorporating the various interests. A corporate stakeholder is a party that can affect or be affected by the actions of the business as a whole. The term has been broadened to include anyone who has an interest in a matter.

On one side of the argument are those who believe in providing for society's discretionary expectations. In addition to making a profit and obeying the law, a company should attempt to alleviate or solve social problems (Pirsch *et al.*, 2006). This view is commonly advocated through stakeholder theory. This theory maintains that corporations should consider the effects of their actions upon the customers, suppliers, the general public, employees, and others who have a stake or interest in the corporation (Jensen, 2002; Smith, 2003; Freeman *et al.*, 2004; Lee, 2008; Schaefer, 2008). Supporters reason that by providing for the needs of stakeholders, corporations ensure their continued success. Proponents of stakeholder theory maintain that increasing shareholder wealth is too myopic a view. According to stakeholder theory, increased CSR makes firms more attractive to consumers. Therefore, CSR should be undertaken by all firms. However, Stakeholder theory has some significant disadvantages; For instance, stakeholder theory runs directly counter to corporate governance. Since shareholders are owners of the firm, the firm should be operated to maximize their returns. Stakeholder theory transfers the corporation's focus from shareholders to the needs of stakeholders. By implementing unprofitable CSR programs, firms are denying their fiduciary responsibility to shareholders (Cheers, 2011).

Carroll Model

A renowned researcher in the CSR field, Archie B. Carroll, has made an attempt to reconcile the firm's economic orientation with its social orientation, or the shareholder and stakeholder perspectives described above. In an effort to give a comprehensive definition of CSR, Carroll created "a four-part conceptualization of CSR, to include the idea that the corporation has not only economic and legal obligations but ethical and discretionary (philanthropic) responsibilities as well" (Carroll, 1979). Carroll later conceptualized these obligations in the form of a pyramid (Carroll, 1991), constructed by the four types of social responsibilities that constitute corporate social responsibility: economic, legal, ethical, and philanthropic.

Conceptualization of CSR

The firm's main economic responsibility is to produce goods and services that customers need and want while maximizing the profit. This forms the foundation of all businesses, and hence the foundation of the pyramid. Legal responsibilities are built on this foundation and are a form of "social contract" between society and business to comply with rules and regulations. Rules and regulations are a codification of ethics, which are turned into law, and must coexist with economic principles. Beyond the law, firms have certain ethical responsibilities which are standards, norms, and expectations that reflect concern for consumers, employees, and shareholders. At the top of the pyramid are the philanthropic responsibilities. These are for business leaders to act as good corporate citizens, by promoting human welfare or goodwill, of which Carroll emphasizes that this is not expected in an ethical or moral sense.

In conclusion, Carroll argues that the first three tiers of his pyramid address the same issues that Friedman embraces, i.e. economics, legalities, and ethics. This leaves only the philanthropic issue for Friedman to reject. Therefore, Carroll's CSR Pyramid can be seen as an attempt to reconcile the two views on CSR, as opined by Friedman and Freeman.

Galbreath's Four CSR Strategies

Another scholar, Jeremy Galbreath, has described four options of strategies that a firm might choose in its pursuit of implementing its CSR activities (Galbreath, 2006). Galbreath is of the view that CSR is ultimately a strategic issue, one that cannot be separated from a firm's overall strategy. He conceptualizes the four strategies while setting a benchmark to evaluate their implementation across firms.

The Shareholder Strategy: Under this strategy, CSR is held as a component of the overall profit motive, in tandem with Friedman's views. The firm works towards maximizing the shareholder returns, has a short- term vision and measurements and benefits are purely financial in nature. *The Altruistic Strategy:* In this strategy, Galbreath is of the view that CSR falls on the managers who guide the firm's social responsiveness. The interwoven nature of the relationship between the firm and the community is acknowledged. The firm is "doing the right thing". The philanthropy comes from the surplus, and donations are made to the community endlessly. *The Reciprocal Strategy*: Here, CSR is seen as being necessary to the firm's survival. The goal is mutual benefits, societal benefits to the community and economic benefits to the firm. This is more of a proactive strategy. It focuses on partnerships like cause-related marketing and is of medium to the long-term range. Lastly *the Citizenship Strategy*: The Citizenship Strategy is based on Freeman's stakeholder view, and the goal of the strategy is built up of responsibility, transparency, sustainability, and accountability. The citizenship strategy views the internal and external constituents as stakeholders, and the firm must address their needs. The time frame for this strategy is long-term, and its success can be measured by a holistic, triple –bottom line analysis.

MATERIALS AND METHODS

The study adopted an explanatory research design. Explanatory research focuses on why questions and also causal relationships design. Answering the 'why' questions involves developing causal explanations. Causal explanations argue that phenomenon Y (customer loyalty) is affected by factor X (CSR Legal initiative). Some causal explanations will be simple while others will be more complex (De Vaus, 2001). The population of the study comprised three major telecommunication firms in Uasin Gishu County namely; Safaricom, Airtel, and Orange. As at 15th January 2013, there were estimated 850,000 mobile subscribers in Uasin Gishu County comprising of 498,222 Safaricom subscribers, 207,517 Airtel subscribers and 141,600 Orange subscribers (CCK database, 2013). From the target population of 847,339, Taro Yamane (1973) sample size formula was used to calculate a sample size of 400 customers as shown below;

$$n = \frac{N}{1 + Ne^2}$$

Where; n = Sample size, N = Population size and e = the error of Sampling
This study allowed the error of sampling of 0.05. Thus, the sample size will be as follows:
The study used a stratified sampling technique. Therefore, customers were stratified into three strata's where the sample size was distributed according to Neyman (1934) allocation formula. The purpose of the method is to maximize survey precision, given a fixed sample size. With Neyman allocation, the best sample size for stratum h would be:

$$n_h = \left(\frac{N_h}{N}\right)n$$

Where; n_h - The sample size for stratum h, n - Total sample size, N_h -The population size for stratum h, and N - The total population

Questionnaires were used to collect the relevant quantitative data, with crobanch alpha being used to determine the reliability of the scales used. The data collected was analyzed using descriptive statistical techniques such as frequencies, mean, and standard deviation and presented using tables. The researcher also used inferential statistics (t-test) and employed a Pearson correlation to show the relationships that exist between the variables. Multiple regressions analysis was also performed to show the causal effect.

RESULTS AND DISCUSSION

Legal Responsibilities

Findings of legal responsibilities in Table 1, mobile services firms were found to operate under the law and regulations when selling their products/services (mean=3.81). Firms also took advantage of regulatory requirements to innovate products or technologies (mean =3.58) as well as being committed to the health and safety of their employees (mean = 3.58). Findings further revealed that mobile service firms consider environmental impact when developing new products (mean = 3.45) some of this was things like energy usage, recyclability, pollution and dumping of its products. Finally, the firm ensured adequate steps were taken against all forms of discrimination (mean = 3.43). In overall, customers were not sure if the mobile services firms comply fully to legal responsibilities and acting beyond expectation (mean of 3.412, the standard deviation of 0.64494, skewnesss -0.376 and kurtosis of 0.656).

Table Legal Responsibilities

	Mean	Std. Deviation	Skewness	Kurtosis
Firms operating under the laws and regulations when selling their product/services.	3.81	1.118	-1.054	0.498
The Firm takes advantage of regulatory requirements to innovate products or technologies	3.58	1.02	-0.564	-0.229
The firms are committed to the health and safety of employees	3.58	0.934	-0.298	-0.225
The firm considers environmental impact when developing new products (such as energy usage, recyclability, pollution, dumping of its products)	3.45	1.19	-0.689	-0.288
Firm ensure adequate steps are taken against all forms of discrimination	3.43	1.065	-0.183	-0.581
Legal Responsibilities	3.412	0.64494	-0.376	0.656

Survey data (2013)

Customer Loyalty

In Table 2 customer loyalty toward mobile service, firms were established. Results indicated that customers could not switch to another network because the one they were operating on was up to their standard (mean = 3.96). They were willing to keep on using the firm services/products (mean = 3.87) and preferred their service provider than any other firm (mean = 3.77). They also revealed that they could recommend the firm products/services to other people (mean = 3.72). In general, customers were loyal to their mobile services provider as evidence of mean, 3.837, standard deviation 0.66339, skewness -0.507 and kurtosis of 0.308.

Table Customer Loyalty

	Mean	Std. Deviation	Skewness	Kurtosis
I Cannot Switch To Another Network because The One Am Operating In Is Up To My Standard.	3.96	1.162	-1.201	0.714
Am Willing To Keep On Using The Firm Services/Products	3.87	0.947	-0.9	0.796
I Prefer My Service Provider than any other Firm	3.77	0.996	-0.675	0.076
I Can Recommend the Firm Products/ Services to other People	3.72	1.041	-0.891	0.34
Customer	3.837	0.66339	-0.507	0.308

Survey data (2013)

Correlation Statistics

Pearson Correlations results in Table 2 showed that Legal responsibilities were positively related with customer loyalty ($r = 0.679$, $\rho<0.05$) an indication that legal responsibilities had 67.9% significant positive relationship with customer loyalty. Findings provided enough evidence to suggest that there was a linear relationship between legal responsibilities and customer loyalty.

Table 2 Correlation Statistics of Independent and Dependent Variable

	Customer Loyalty	Legal responsibilities
Customer loyalty	1	
Legal Responsibilities	.679**	1

** Correlation is significant at the 0.01 level (2-tailed).
Survey data (2013)

Test of Hypotheses

The study Hypothesis (H_{o1}) of the study hypothesized that legal responsibilities have no significant effect on customer loyalty. As evidence from the study results ($\beta_3 = 0.249$, $\rho<0.05$) the study hypothesis was rejected suggesting that legal responsibilities have a significant positive effect on customer loyalty in mobile service firms. Thus, failure by the firm to ensure legal responsibilities in its operations will impact negatively on customers' loyalty (t ratio = 5.092)

Table Multiple Regression Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	0.844	0.135		6.271	0.000		
Legal Responsibilities	0.256	0.05	0.249	5.092	0.000	0.466	2.147
R Square		0.622					
Adjusted R Square		0.618					
F		139.914					
Sig.		.000					
Durbin-Watson		1.336					

a Dependent Variable: Customer loyalty

Survey data (2013)

Summary of the Findings

Most study findings revealed that legal responsibilities have a significant positive effect on customer loyalty in mobile service firms (β_3 =0.249). The study findings argue that legal responsibility which is to conduct the business in accordance with laws and embodied in law, generally such firms are likely to attract more customers (Reinhardt *et al.*, 2008). Moreover, Tax laws act as a determinant on how firms are to engage CSR (Campbell, 2004). It thus, opined out that firm with high tax compliances increases their customers' base. In this regards, Schultz and Morsing (2003) found the use of CSR for marketing communication purposes to be distasteful to some consumers. Stuart (2004) argues that if firms over-emphasize their CSR policies, consumers may perceive the brand as self-interested, leading to the creation of negative feelings. Webb and Mohr (1998) found that consumers do their shopping based on price, quality or convenience, rather than choosing retailers because of the social causes they support. Dean (2004) argues that the actions that impact on Corporate Social Responsibility (CSR) policies on perceptions and behavioral intention of Greek consumers undertaken by companies as a part of the CSR program may be partly altruistic, but may also be employed in their own corporate interests.

Conclusions

This study of CSR legal incentives impact on consumer loyalty reveals that consumers do not seem to be fully aware of legal CSR activities companies are engaged in. This is reflected in the mean values of the CSR perception scales. The results indicate that communication of CSR activities, highlighting the most important CSR domains, both at the point of sale and in general marketing communications is important to keep consumers informed about the companies' activities. This research result indicates that there is a direct and positive relationship between CSR and customer loyalty, therefore, forming a basis for other studies.

Policy Recommendation

Customer perception about the firm quality products and services, reasonable price, innovation on technologies, employee health and safety, laws and regulations and firms' fundamental ethical principles will have an impact on customer satisfaction which in turn leads to customer loyalty. Organisations should realize and invest in corporate social responsibility scheme in order to enhance their relationships with customers by initiating robust corporate strategy, particularly in social concerns. Moreover, organization should communicate CSR ways to the general public.

References

i. *Bolton, Ruth N. and James H. Drew (1991), A Longitudinal Analysis of the Impact of Service Changes on Customer Attitudes, Journal of Marketing, 55 , 1–9.*

ii. *Bowen, J.T., & Chen, S.L. (2001). The relationship between customer loyalty and customer satisfaction. International Journal of Contemporary Hospitality Management, 13(5), pp.213-7.*

iii. *Bowen, John T. and Shiang-Lih Chen (2001), The Relationship between Customer Loyalty and Customer Satisfaction, International Journal of Contemporary Hospitality Management, 13 (4/5), 213-217.*

iv. *Campbell, J. L. 2004. Institutional change and globalization. Princeton, NJ: Princeton University Press.*

v. *Carroll, A. B. (1979). A three dimensional conceptual model of corporate performance framework. Academy of Management Journal, 4(4) pp.479- 505.*

vi. *Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. Business & Society, 38, 268-295.*

vii. *Carroll, A. B. (2000). A commentary and an overview of key questions on corporate social performance measurement. Business & Society, 39, 466-478.*

viii. *Carroll, A. B. 1991. The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. Business Horizons, July-August: 30-48.*

ix. *De Vaus, D. A.: 2001, Research Design in Social Research (SAGE Publication, London).*

x. *Dean, D. H. (2004). Consumer Reaction to Negative Publicity: Effects of Corporate Reputation, Response, and Responsibility for a Crisis Event. Journal of Business Communication, 41(2), 192 – 211.*

xi. *Drumwright, M.E. and Murphy, P.E. (2001), Corporate societal marketing. In: Bloom, P.N. and Gunlach, G.T. (Eds.), The Handbook of Marketing and Society, Sage Publications, Thousand Oaks, California, pp. 162-183.*

xii. *Fisch, Jill E. 2006. Measuring efficiency in corporate law: The role of shareholder primacy. Iowa Journal of Corporation Law 31(Spring): 637.*

xiii. *Freeman, R. E. 1984. Strategic management: A stakeholder approach. Boston:Pitman*

xiv. *Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and the corporate objective revisited. Organization Science, 15(3), 364-369. Retrieved from http://orgsci.journal.informs.org/*

xv. *Friedman, M. (1970) The social responsibility of business is to increase its profits, The New York Times Magazine (13 September).*

xvi. *Galaskiewicz, J. 1991. Making corporate actors accountable: Institution-building in Minneapolis-St. Paul. In W. W. Powell & P. J. DiMaggio (Eds.), The new institutionalism in organizational analysis; 293–310. Chicago: University of Chicago Press.*

xvii. *Neyman, J. (1934), On the two different aspects of the representative method: the method of stratified sampling and the method of purposive selection, Journal of the Royal Statistical Society 97, 558-606.*

xviii. *Oliver, R.L. 1999. Whence consumer loyalty? Journal of marketing, 63, 33-44.*

xix. *Onlaor,W. and Rotchanakitumnuai,S. (2010), Enhancing Customer Loyalty towards Corporate Social Responsibility of Thai Mobile Service Providers, World Academy of Science, Engineering and Technology 42*

xx. *Palmatier, Robert W., Dant, Rajiv P., Grewal, Dhruv & Evans, Kenneth R. (2006). Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis. Journal of Marketing, 70(4), 136–53.*

xxi. *Pavlos A Vlachos (2011) Corporate Social Responsibility: Attributions, Loyalty and the Mediating Role of Trust. Journal of Selected works.*

xxii. *Pramanik. Prakash and Cyan Prakash, 2007,Service Loyalty Measuring Index For Banking Services: A Comperative Study Of Private And Public Banks, international journal of business tomorrow.*

xxiii. *Stuart, H. (2004), Risky Business: Communicating Corporate Social Responsibility. In: J. Wiley and P. Thirkell ((Eds), Marketing Accountabilities and Responsibilities, Proceedings of the Australia and New Zealand Marketing Academy Conference, [CD Rom].*

xxiv. *Swaen, V. and Chumptaz, R. C. (2008), Impact of Corporate social responsibility on consumer trust, Journal of Application on Marketing, 23, 7-33.*

xxv. *Yamane, Taro. 1973. Statistics: an introduction analysis. Singapore: Times Printers, c1973. 3rd ed*

xxvi. *Webb, D.J. and Mohr, L.A. (1998), A Typology of Consumer Responses to Cause-related marketing: From Skeptics to Socially Concerned, Journal of Public Policy & Marketing, 17 (2), pp. 226-238.*