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Corporate social responsibility, customer satisfaction, and financial performance: The moderating effect of the institutional environment in two transition economies

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ABSTRACT

Corporate social responsibility (CSR) is a long-established topic in firms' operating process, yet few studies have examined CSR from the perspective of customer satisfaction and institutional environments. We fill the gap in the existing literature by exploring the roles of customer satisfaction and institutional environments as they pertain to the link between CSR efforts and financial performance, specifically in the context of transitional economies. In this work, we use a sample of 238 firms located in China and Vietnam. Our empirical results present several interesting findings: (a) the relationship between CSR efforts and financial performance is fully mediated by customer satisfaction; (b) good institutional environments positively strengthen the impact of CSR efforts on firms' customer satisfaction; and (c) there are significant differences in the moderating effect of institutional environments between the two countries that were sampled in this research. In the Chinese sample, the institutional environment positively moderated the relationship between CSR and customer satisfaction; while in the Vietnamese sample, the institutional environment positively moderated the relationship between CSR efforts and the return on sales (ROS). Based on these findings, we provide several recommendations for managers to effectively conduct CSR practices.

1. Introduction

The topic of corporate social responsibility (CSR) has been a main research theme in management literature for some time, and many researchers have adopted it from various perspectives over the past few decades (e.g., Abagail and Siegel, 2000; Cochran and Wood, 1984; McGuire et al., 1988; Pava and Krausz, 1996; Pino et al., 2016; Zhu and Zhang, 2015). CSR is seen as the commitment of businesses to sustainable economic development, such that development improves the quality of life of an assortment of people, including employees, their families, and the local community (Aguilera-Caracuel et al., 2015). Moreover, CSR is also defined as a behavior that is connected with business ethics, meaning the obligation of the operations of a firm to social, as well as environmental concerns (Pätäri et al., 2014; Wang et al., 2015). CSR practices push firms to conduct more social responsibilities than they are obligated to under the law (Yu and Choi, 2014). Overall, CSR has become an increasingly important subject among scholars of management (Godfrey et al., 2009; Windsor, 2006). In practice, many companies are also actively engaged in CSR activities (Dahlsrud, 2008; Liu et al., 2011; McWilliams et al., 2006).

Previous studies have focused on the effects of firms' CSR activities, revealing that CSR can affect corporate reputation (e.g., Bear et al., 2010; Park et al., 2014), corporate political activity (e.g., Hond et al., 2014), brand performance (e.g., Lai et al., 2010), customer satisfaction (e.g., Pérez and Bosque, 2015a), and financial performance (e.g., McGuire et al., 1988; Saeidi et al., 2015). However, the common topic found in this work is still the relationship between CSR and financial performance—CSR is seen as a vital approach to generate wealth and improve firm performance (Gallardo-Vazquez and Sanchez-Hernandez, 2014; Garriga and Mele, 2004). Many scholars have indicated a close link between CSR and the performance of firms (Kurapatskie and Darnall, 2013; Margolis and

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Walsh, 2003), but controversy remains regarding the impact of CSR efforts as they pertain to financial performance. Here, some researchers have demonstrated that CSR is positively related to financial performance (Alafi and Hasoneh, 2012; Lin et al., 2009; Sun and Kim, 2013; Wang et al., 2015). From this perspective, Waddock and Graves (1997) suggested that the benefits to be gained from CSR practices are greater than the costs involved. Shin and Thai (2015) stated that firms' social commitment could enhance economic performance. On the other side of the equation, other researchers, especially neoclassical economists, have argued that CSR has a negative impact on financial performance because they think such social costs can be avoided (Chen et al., 2015; Mallin et al., 2014). In addition, there are some scholars who have argued that CSR has no impact on financial performance or that there is a neutral relationship between the two (Lu et al., 2014).

On the whole, previous research has mainly focused on the possible positive, neutral, or negative relationships between CSR and financial performance (Lu et al., 2014; Mallin et al., 2014; Wang et al., 2015). In practice, however, the relationship between CSR efforts and financial performance is usually affected by other, more indirect factors (Saeidi et al., 2015). That is, there may be some variables (e.g., institutional environment, and corporate reputation) or stakeholders (e.g., customers, suppliers, and employees) that influence the relationship between CSR and financial performance. In this study, to construct a theoretical framework in the context of transition economies, we focus on the possible connections between CSR and financial performance from the perspectives of the customer satisfaction (a market factor) and the institutional environment (a non-market factor).

At first, customer satisfaction is seen as one of the major indirect factors that are linked closely with CSR (Lee and Heo, 2009). According to stakeholder theory, firms need to consider the interests of their shareholders, such as customers (McWilliams and Siegel, 2001; Yu and Choi, 2014). Although various stakeholders have different interests, which may have diverse impacts upon CSR policies (Lu et al., 2014), the increasing global awareness of CSR encourages them to conduct CSR practices. Moreover, previous studies have shown that CSR is an important component for customer loyalty (Choi and La, 2013), and it can influence customer loyalty at those times when companies are in fiercely competitive environments (Martínez and Bosque, 2013). Hence, firms' CSR efforts may improve customer satisfaction (Luo and Bhattacharya, 2006), and then keeping loyal customers can yield profits (Minami and Dawson, 2008). However, few studies have explored the relationship between CSR and performance from the view of the customers. Moreover, given that customer/consumer is an important stakeholder that is particularly susceptible to a firm's CSR initiatives (Bhattacharya and Sen, 2004), and China has become the world's largest market and Chinese consumers have already attracted great attention from enterprises all over the world (Tian et al., 2011), we focus on one of the most relevant stakeholders for firms—customer, and examine the link between customers satisfaction and CSR can help managers understand customers' responses to CSR and provide them better strategic guidance to implement CSR in China.

A second major indirect factor that may affect the relationship between CSR and financial performance is the institutional environment. One notable feature of firm practices in transition economies is the activist and interventionist roles played by governments in economic transformation (Hu and Lin, 2013). As intuited through institutional theory—a basic theoretical framework to understand the effect of institutional environments on the relationship between CSR and financial performance—when an institutional environment creates more uncertainty, it is difficult for firms to adjust dynamically to institutional changes (Wu and Chen, 2014). Therefore, CSR practices are easily influenced by the institutional environment (Fifka and Pobizhan, 2014). Most especially, this phenomenon is strengthened in transition economies. Moreover, the institutional environment in transition economies has some particular characteristics that are different from those of developed countries (Peng and Luo, 2000). For instance, firms in transition economies are heavily influenced by the ways in which they are historically embedded in specific regional and institutional contexts (Hu and Lin, 2013). Thus, in transition economies, the effects of CSR efforts on a firm's performance may be influenced by the institutional environment.

However, up to this point, little research has examined how these indirect factors affect the relationship between CSR and financial performance in the business environment in transition economies. Prior works that have discussed the link between CSR and customer satisfaction are scarce. Further, it is more challenging for firms in transition economies to maintain strong levels of social responsibility because of complicated moral conflicts and idiosyncratic norm standards (Fulop et al., 2000). Accordingly, to extend the understanding of how CSR efforts are related to financial performance in other contexts, we propose a comprehensive theoretical framework that encompasses and examines the indirect effects of customer satisfaction and the institutional environment on the relationship between CSR and financial performance. Here, we empirically analyze 238 firms operating in two transition economies, China and Vietnam, based on both stakeholder theory and intuitional theory. Our study is among the first few to jointly examine the effects of customer satisfaction and the institutional environment on the relationship between CSR and financial performance in transitional economy-specific contingencies. Therefore, our paper contributes to the theory of CSR practices of firms from the perspective of the institutional environment, thus enhancing our understanding of the effects of CSR, customer satisfaction, and the institutional environment on the financial performance of firms in transition economies.

The remainder of this paper is organized as follows. Section 2 states the development of our hypotheses. Section 3 describes the variables and data. Section 4 discusses our empirical findings. Finally, in Section 5, we present our theoretical contributions and the managerial implications of this work; In Section 5, we also discuss the limitations of this research and possible future research direction.

2. Hypotheses development

2.1. The mediating effect of customer satisfaction

Customer satisfaction measures the loyalty and quality of customers for a firm (Tuli and Bharadwaj, 2009), thus customer satisfaction equates to how a firm's products and services meet customer expectations (Kim et al., 2013). Customer satisfaction is evoked by the customer's experience with a particular company (Terpstra and Verbeeten, 2014). It is important to first satisfy customers and to retain them for a number of reasons, not the least of which is that it is cost efficient (Sun and Kim, 2013).

Some literature suggests that CSR is closely linked to customer satisfaction (Galbreath, 2010; Mandhachitara and Poolthong, 2011). Understood through equity theory, customers are more likely to be more satisfied if a firm is socially responsible toward different stakeholders, including the customers themselves (Pérez and Bosque, 2015a). On the one hand, customer satisfaction results from both the perceptions of service quality and the perceptions of the company's social responsibility level (Walsh and Bartikowski, 2013). On the other hand, firms' CSR efforts enable customers to perceive that they gain value from those firms with strong CSR