

# Does Retailer CSR Enhance Behavioral Loyalty: A Case for Benefit Segmentation

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by

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### Abstract

The authors study the effects of two types of Corporate Social Responsibility activities on consumers' attitudinal and behavioral loyalty toward retailers: *extrinsic* CSR programs are related to broader social good (such as environmental friendliness or community support) but not to the customer's direct exchange with the firm; *intrinsic* CSR programs pertain to the customer's direct exchange with the firm (such as products and employees who serve customers). The authors also control for other retailer attributes that drive loyalty and examine heterogeneity in consumer responses. They find that all CSR efforts do not garner equal rewards from all consumers. Although both intrinsic and extrinsic CSR engender attitudinal loyalty across all consumers, there are distinct segments when it comes to behavioral loyalty. One segment, accounting for about 30% of the sample, rewards both intrinsic and extrinsic CSR with a higher share-of-wallet (SOW). The largest segment (almost 60% of the sample), however, only rewards retailers for intrinsic CSR; extrinsic CSR actually has a negative effect on SOW for this segment which perceives CSR as taking up company resources that could otherwise improve customer value. Overall, a one standard deviation increase in consumer perceptions of intrinsic CSR initiatives leads to a gain in SOW of 6.0% while a corresponding increase in extrinsic CSR raises SOW by 1.3%. The authors identify relevant characteristics of these segments and conclude with implications for how best a retailer can manage and communicate its CSR initiatives.

**Keywords:** Corporate Social Responsibility (CSR); Dimensions of CSR; Retail Store Patronage; Attitudinal Loyalty; Behavioral Loyalty, Share of Wallet.

## **1. Introduction**

Corporate social responsibility (CSR) refers to a firm's moral, ethical and social obligations beyond its own economic interests (Brown and Dacin 1997; McWilliams and Siegel 2001). As CSR gains strategic importance in the eyes of senior management, companies are engaging in a wide range of CSR programs including environmental sustainability, community support, cause-related marketing, and employee enablement. They are investing significantly in publicizing their CSR initiatives in the hope of strengthening relationships with key stakeholders including employees, customers, investors, and the broader community. But, CSR programs themselves are often costly (e.g., Wal-Mart donated more than \$512 million in "cash or kind" between Feb. 2009 and Jan. 2010) and, as noted by Luo and Bhattacharya (2009) and others, they compete for resources that can alternatively be channeled to other areas such as innovation or service improvement. Not surprisingly, therefore, both academics and practitioners want to determine the returns to CSR investments.

One way to assess returns is by examining financial performance. Despite a large body of empirical research, the jury is still out regarding the impact of CSR efforts on a firm's financial performance. Most studies use the Kinder, Lydenburg, Domini (KLD) index of corporate social performance to quantify CSR efforts. KLD is created by an independent rating agency covering a cross-section of 800 large firms including the S&P 500. The majority of these studies show a positive effect and recent work demonstrates that CSR also reduces firm-specific risk (Luo and Bhattacharya 2009). But some researchers also report a substantial number of insignificant and even negative effects, and methodological and theoretical criticisms of the studies abound (see Margolis and Walsh 2003 and Orlitzky, Schmidt, and Rynes 2003 for reviews). These mixed results are attributable in part to the fact that CSR has multiple dimensions whose impact varies

across industries, stakeholder groups, and individuals within a stakeholder group (e.g., Berman et al. 1999; Hillman and Keim 2001; Sen and Bhattacharya 2001). Accordingly, as Godfrey and Hatch (2007) and Raghurir et al. (2010) note, there is a need to conduct industry-specific studies and to distinguish between different dimensions of CSR as well as between stakeholder groups.

One of the firm's most relevant stakeholders is its customers. Social identity theory and consumer-company identification research suggest that consumers should embrace the more positive and distinctive identity of a company that engages in CSR, thus enhancing their own self-consistency and self-esteem (e.g., Bhattacharya and Sen 2003; Sen and Bhattacharya 2001). Thus, customers should reward such companies with greater loyalty and higher willingness to pay, ultimately enhancing the firm's financial value.

In contrast with the work on financial performance, there is much less research on how customers respond to CSR efforts. Consumer polls paint a rosy picture for CSR initiatives, but they suffer from social desirability bias and other validity concerns (see Auger et al. 2003 and Cotte and Trudel 2009 for critiques of these polls). Academic work shows that, by and large, consumers exhibit more favorable attitudes (e.g., Du, Bhattacharya, and Sen 2007; Klein and Dawar 2004; Lichtenstein, Drumwright, and Braig 2004; Luo and Bhattacharya 2006) and higher willingness to pay (e.g., Auger et al. 2003; Creyer and Ross 1996; Trudel and Cotte 2009) towards socially responsible companies, although they punish unethical behavior more strongly than they reward ethical behavior. It also demonstrates that there is considerable heterogeneity in consumer responses to CSR (e.g., Barone, Miyazaki, and Taylor 2000; Bhattacharya and Sen 2004; Brown and Dacin 1997; Sen and Bhattacharya 2001).

However, this research is largely based on laboratory experiments and studies attitudes and intentions rather than actual behavior. Subjects are typically presented with a description of a

company's CSR record and then asked about their attitudes and/or purchase likelihood. Given the salience of the CSR information in the experimental environment, its impact may be overstated compared to the real-life purchase environment in which a myriad of other factors – product quality, price, assortment, convenience, etc. – influence choice. Indeed, Bhattacharya and Sen (2004) note that consumers are reluctant to trade off CSR for core attributes such as price and this reluctance is “one of the main reasons why CSR initiatives result in positive company attitudes that do not, in turn, translate into greater purchase behavior”. The limited external validity of this body of work has led researchers like Sen and Bhattacharya (2001) and Du, Bhattacharya, and Sen (2007) to call for more research based on field data collected in actual marketing environments and in the context of competitive offerings.

Thus, prior CSR research reveals the need to: (1) distinguish between the different dimensions of CSR; (2) study the response of specific stakeholder groups in individual industries; (3) link consumers' CSR perceptions to their purchase behavior in addition to brand attitudes; (4) control for other core firm attributes from which consumers derive utility; and (5) examine heterogeneity in CSR response across individuals.

To address this need, we study the effects of the key dimensions of CSR in the grocery retail industry on consumers' attitudinal and behavioral loyalty. We survey consumers in a geographical market to measure their perceptions of CSR and other attributes of all major grocery retailers in that market, as well as to measure their attitudinal and behavioral loyalty to these retailers. The retailers vary significantly in their CSR images as well as in other attributes (such as price, assortment and in-store service) that drive consumers' store patronage. We use these data to specify and estimate a model of attitudinal and behavioral loyalty that allows for heterogeneity in the effects of all variables. We distinguish between CSR dimensions that are

intrinsic to the consumer's purchase experience with a retailer (i.e., fair treatment of employees and local sourcing of products) and those that are extrinsic to the purchase experience (i.e., environmental friendliness and community support). In sum, we (i) measure the effects of CSR on attitudinal loyalty and behavioral loyalty in a field setting while controlling for other drivers of customer preferences; (ii) show how these effects differ across key CSR dimensions in an industry that represents a major sector of the economy (\$354 billion in 2009); and (iii) investigate how much the response to CSR dimensions varies across consumers.

The rest of our paper is organized as follows. We first develop our conceptual framework and describe the data used for our analysis. This is followed by a presentation of our results and we conclude our paper with a discussion of the implications for researchers and managers.

## **2. Conceptual Development**

Figure 1 depicts our conceptual model. It allows consumers' perceptions of CSR, the focal construct in this research, to directly affect their loyalty to a retailer, while incorporating the impact of price and the other retailer attributes that the retailing and store image literature identifies as the main influencers of store patronage. The framework also allows for a moderating effect of CSR perceptions on the price sensitivity of consumers. We discuss each major element of the framework below.

< Insert Figure 1 about Here >

### 2.1 Intrinsic versus Extrinsic Dimensions of CSR

The literature generally follows the KLD classification of CSR into six dimensions – employee support, diversity, community support, environment, products, and non-US operations. While prior research has suggested that returns to CSR initiatives vary depending on which dimension(s) they tap and which industry and stakeholder group is being studied, it is not clear

from extant theories and empirics what CSR dimensions matter more to a particular industry such as grocery retailing. As discussed below, we propose that customers respond differently to intrinsic and extrinsic CSR activities.

Bhattacharya and Sen (2004) propose that consumers may respond more positively to CSR initiatives that have a direct impact on their experience with the firm. Bhattacharya, Sen, and Korschun (2008) also note that stakeholders' response depends upon the type and magnitude of benefits they themselves derive from the CSR activities. Related to this is the notion that pro-social behavior is motivated by both selfish and selfless altruism, where the ultimate goal of the former is self-benefit with helping others being an instrumental goal, while the ultimate goal of the latter is helping others with self-benefit as an unintended consequence (Batson and Shaw 1991; Krishna 2011). Consumer response is also expected to be more positive for initiatives that are integrated into the core positioning of the firm/brand (Du, Bhattacharya, and Sen 2007), and that have a good "fit" with the firm/brand (Bloom et al. 2006) as long as this does not generate negative perceptions regarding the firm's motives (Barone, Norman, and Miyazaki 2007). This suggests that dimensions of CSR that only contribute to broad social good and that are less able to be integrated with a retailer's core offering (e.g., those related to the environment or community) should have a less positive effect on consumer loyalty. On the other hand, those CSR dimensions that provide both a societal and a personal benefit and are more amenable to integration into a retailer's core offering (e.g., those related to the product or service experience) should have a more positive effect on consumer loyalty. We call the former "extrinsic" and the latter "intrinsic" CSR dimensions and examine their potentially differential impact on loyalty.<sup>1</sup>

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<sup>1</sup> Du, Bhattacharya, and Sen (2007) use the terms extrinsic and intrinsic differently, to describe the firm's self-interested versus selfless motives for engaging in CSR. We use the terms in accordance with their dictionary meaning and their general use in prior literature, where "intrinsic" is an essential part of a product or relationship and "extrinsic" is something that originates from the outside.

## 2.2 Attitudinal versus Behavioral Loyalty

As noted in the introduction, most previous consumer research studies on CSR relied on laboratory experiments and measured consumers' attitudes and self-reported behavioral intentions in response to firms' CSR performance records, not their actual behavior. Not only is social desirability bias a serious concern with the external validity of this methodology, but several factors intervene as barriers to action even if a consumer intends to perform a certain behavior (Sun and Morwitz 2010; Morwitz, Steckel, and Gupta 2007). Cotte and Trudel (2007) suggest that the attitude-behavior gap can be especially prominent in the CSR realm.

Bhattacharya and Sen (2004) also note that consumers' reluctance to compromise on attributes like price suggests that their positive attitudes may not translate into greater purchase behavior.

Thus, we expect CSR to have a more favorable effect on attitudinal loyalty than on behavioral loyalty. Furthermore, we hypothesize that extrinsic CSR will result in a bigger attitude-behavior gap than intrinsic CSR, because consumers should be more likely to follow through on positive attitudes when they obtain a direct benefit from the firm's CSR initiatives than when the CSR initiatives are only for the broader social good.

## 2.3 Other Retailer Attributes

Although our focus is on the effect of CSR, we must control for other retailer attributes that affect loyalty and that may be correlated with CSR, especially given previous findings regarding consumers' unwillingness to trade off other attributes for CSR (Barone, Miyazaki, and Taylor 2000; Sen and Bhattacharya 2001; Luo and Bhattacharya 2006). A review of the retailing and store image literature shows that the drivers of retail store image and patronage can be categorized into a few key attributes – price, assortment, product quality, deals, in-store service and social experience, and convenience of location (e.g., Ailawadi and Keller 2004; Baker et al.

2002; Lindquist 1974; Mazursky and Jacoby 1986). Clearly, we expect price to be negatively related to loyalty and the other retailer attributes to be positively related to loyalty.

#### 2.4 Moderating Effect of CSR

The price fairness literature demonstrates that consumers' response to price depends on how fair they perceive those prices to be (Bolton, Warlop, and Alba 2003; Campbell 1999a,b; Martin, Ponder, and Lueg 2009). Further, positive motives for increasing price are perceived as more fair than negative motives and consumers give the benefit of the doubt to firms with a good reputation when inferring motives (Campbell 1999b). To the extent that CSR improves a firm's reputation and consumers attribute possibly higher prices to higher costs associated with CSR rather than a profit motive, CSR perceptions may reduce the negative effect of price on loyalty. Thus, we expect CSR perception to positively moderate the effect of price. Since prior research does not provide guidance on whether intrinsic CSR dimensions may justify higher price differently than extrinsic ones, we leave the possibly different moderating effect of these CSR dimensions on price sensitivity as an empirical question.

#### 2.5 Heterogeneity in Consumer Response

As noted previously, there is considerable variation in consumers' response to CSR. While some of this may be due to differences in the dimensions of CSR that specific initiatives emphasize, there may also be considerable heterogeneity across consumers, even in response to a given initiative. This may depend on how much they personally believe in an initiative (Sen and Bhattacharya 2001), their level of selfish and selfless altruism (Batson and Shaw 1991), whether they believe CSR impinges on a company's corporate abilities (Brown and Dacin 1997), and how much importance they place on other aspects of the company's core offering, such as price and service (Bhattacharya and Sen 2004). Also, research on consumer shopping behavior has

shown that consumers vary widely in the value they place on other store attributes, e.g., how much they are willing to engage in price search (e.g., Talukdar, Gauri, and Grewal 2010; Urbany, Dickson, and Kalapurakal 1996). Thus, our conceptual model allows for heterogeneity in response to CSR as well as to all the other retailer attributes that drive loyalty.

### **3. Method**

#### 3.1 Sample

The data for our analysis come primarily from a survey administered to customers of a grocery retail chain located in the northeastern U.S. This “focal” retailer positions itself as a socially responsible retailer, not just engaging in some CSR initiatives but actually integrating them into its business strategy (e.g., Du, Bhattacharya and Sen 2007). With the retailer’s cooperation, we mailed a letter to its approximately 16,000 active loyalty program members ( i.e., those who made at least one purchase at the retailer in the previous six months) inviting them to participate in the survey that could be completed online or on paper. Paper copies were made available and collected at all of the retailer’s stores. The purpose of the survey was introduced in general terms (“to better understand and serve the needs of customers”) without mentioning corporate social responsibility or any other specific area. A lottery of ten gift certificates worth \$100 each, redeemable at area businesses, was used to encourage participation. In total, 2,884 responses were obtained during the one-month period for which the survey was live (between April and May 2010), representing a response rate of about 18%.

#### 3.2 Measures

The survey comprised four main sections. The first section collected information on the respondent’s SOW (measured as percentage of total grocery spending in the past six months) with the focal retailer as well as the seven major competing retailers in the area. We also allowed

the respondent to indicate “other stores” not listed in the survey to accommodate the possibility that consumers may do some of their grocery shopping at other stores. The median (mean) SOW for the outside option is 0% (9.3%), indicating that the eight retailers included in our study account for most of the respondents’ grocery spending.

The second section asked for respondents’ perceptions of the focal retailer on the key attributes identified in the retailing and store image literature (such as product quality, price, and in-store experience), as well as on the four CSR dimensions that are relevant in the current empirical context – treating employees fairly, offering local products, adopting environmentally friendly policies, and supporting the community. All the perception items were rated on a five-point scale, and the ordering of the items was fully randomized across respondents.

The third section asked for respondent’s perceptions of a second store on the same attributes. In the online version of the survey, the second store was randomly generated among the competing stores that receive at least 10% SOW from the respondent (this section was skipped if no competing stores receive more than 10% SOW). This ensured that the respondent had some familiarity with the second store being evaluated. In the paper version of the survey, the identity of the second store was randomized across multiple versions of the questionnaire, and the respondent was instructed to skip this section if he or she was unfamiliar with the particular store. The last section of the survey gathered self-reported importance of various retailer attributes and standard demographic and psychographic information.

< Insert Table 1 about Here >

After responses with missing data were discarded, a final sample consisting of 4345 observations from 2,599 respondents was used to estimate our model. This includes 1911 ratings of a second store. Table 1 presents measures of each variable in our study, along with their

descriptive statistics and, for multi-item variables, their reliabilities.<sup>2</sup> To check the validity of the self-reported behavioral loyalty measure, we used loyalty program numbers to link respondents' survey data to their purchase histories stored in the focal retailer's transaction database. The correlation between respondents' self-reported SOW at the focal retailer and their actual spending there over the six-month period prior to survey administration is 0.61. We also computed the household's actual SOW at the focal retailer from the actual spending and the household's self-reported weekly total grocery budget. The correlation between actual and self-reported SOW is 0.73. These correlations are much stronger than is typically reported between perceived and objective measures of variables (e.g., Bommer et al. 1995), and show that the self-reported measure of behavioral loyalty has strong validity.

In summary, these data offer several important advantages in achieving our research goals. First, like Lichtenstein, Drumwright, and Braig (2004), we survey a retailer's customers and assess both attitudinal and behavioral loyalty; however, unlike them, we encompass not only the focal retailer but also all the major competitors in the market. As noted by Du, Bhattacharya and Sen (2007) and Bhattacharya and Sen (2004), consumers respond to the CSR and other actions of a firm not in isolation but in the context of competitors' actions, so it is important to include competition in any analysis of consumer attitudes and purchase choices, especially when there is substantial variation across competitors. Second, we assess the impact of distinct CSR dimensions relevant in grocery retail rather than combine them into one construct. Third, we account for other key retailer attributes that drive consumers' attitude and behavior. Fourth, concerns about common method bias are alleviated (Rindfleisch et al. 2008) because (1) the key

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<sup>2</sup> While multi-item measures may have been desirable for all constructs (although, see Bergkvist and Rossiter (2007) for findings to the contrary), survey length was an issue given the large number of constructs in our model and the need for each respondent to rate two retailers. Therefore, we used single items for some control variables and for variables that are more concrete.

dependent variable in our model, SOW, precedes the independent variables in the survey, thus preventing bias due to cognitive consistency; (2) the order of items relating to CSR, attitudinal loyalty, and all other store attributes is completely randomized across respondents; (3) SOW is measured using a completely different measurement scale than the retailer perceptions serving as independent variables; and (4) SOW correlates strongly with actual purchase data taken from the transaction database of the focal retailer.

### 3.3 Model

Figure 1 implies the following model of consumer loyalty:

$$\begin{aligned} \text{Loy}_{ir} = & \beta_{i0} + \beta_{i1}\text{ExtCSR}_{ir} + \beta_{i2}\text{IntCSR}_{ir} + \beta_{i3}\text{Price}_{ir} + \beta_{i4}\text{ExtCSR}_{ir}*\text{Price}_{ir} + \beta_{i5}\text{IntCSR}_{ir}*\text{Price}_{ir} + \\ & \beta_{i6}\text{Variety}_{ir} + \beta_{i7}\text{Unique}_{ir} + \beta_{i8}\text{Qual}_{ir} + \beta_{i9}\text{Deals}_{ir} + \beta_{i10}\text{Instore}_{ir} + \beta_{i11}\text{Similar}_{ir} + \\ & \beta_{i12}\text{Wlthy}_{ir} + \beta_{i13}\text{Conloc}_{ir} + \varepsilon_{ir} \end{aligned}$$

All the variables in the equation above are as defined in Table 1. We estimate separate models for attitudinal loyalty and SOW. Unobserved heterogeneity in parameters across consumers can be incorporated by estimating the model using either the continuous (e.g., Gönül and Srinivasan 1993) or the finite mixture method (e.g., Kamakura and Russell 1989). We use the latter because we are interested not just in controlling for heterogeneity but in identifying actionable consumer segments whose size and preferences provide important managerial insights.

Since the latent segments are formed based on response to all model variables, the segment-level parameter estimates characterize the consumer segments not only in terms of how they respond to extrinsic and intrinsic CSR but also in terms of the value they place on other retailer attributes. In addition, we use demographic variables (education, income, and age) and the panelists' beliefs about how CSR affects firms' costs and their ability to serve their customers to explain the probability of belonging to a given segment. We estimate the latent

segments and the probability of membership jointly using the concomitant variable latent class model (Greene 2003; Wedel and Kamakura 2000), and select the number of latent segments,  $S$ , using the Bayesian Information Criterion (BIC). The final model we estimate, therefore, is:

$$\text{Loy}_{ir} = \beta_{i0} + \beta_{i1}\text{ExtCSR}_{ir} + \beta_{i2}\text{IntCSR}_{ir} + \beta_{i3}\text{Price}_{ir} + \beta_{i4}\text{ExtCSR}_{ir} * \text{Price}_{ir} + \beta_{i5}\text{IntCSR}_{ir} * \text{Price}_{ir} + \\ \beta_{i6}\text{Variety}_{ir} + \beta_{i7}\text{Unique}_{ir} + \beta_{i8}\text{Qual}_{ir} + \beta_{i9}\text{Deals}_{ir} + \beta_{i10}\text{Instore}_{ir} + \beta_{i11}\text{Similar}_{ir} + \\ \beta_{i12}\text{Wlthy}_{ir} + \beta_{i13}\text{Conloc}_{ir} + \varepsilon_{ir}$$

$$[\beta_{i0}, \beta_{i1}, \dots, \beta_{i13}] = [\beta_{s0}, \beta_{s1}, \dots, \beta_{s13}],$$

where  $s = \{1, 2, \dots, S\}$  and the prior probability that consumer  $i$  belongs to segment  $s$  is given by:

$$\text{Prob}(i=s) = \frac{\exp(Z_i' \cdot \gamma_s)}{\sum_{s'=1}^S \exp(Z_i' \cdot \gamma_{s'})}$$

and  $Z_i$  is a vector of consumer  $i$ 's characteristics listed in the bottom panel of Table 1.

## 4. Results

Table 2 presents correlations among key variables in our model. The strong correlations, especially between CSR dimensions and other retailer attributes, underscore the importance of controlling for the latter to ensure that the estimated effects of CSR are not biased due to omitted variables. But, the strong correlations also suggest the possibility of multi-collinearity so we computed variance inflation factors (VIFs) for all the variables in our model before proceeding further. As expected, the highest VIFs are for the two CSR dimensions, but even these are only 5.1 and 5.7, well below levels that are considered problematic.

< Insert Table 2 about Here >

### 4.1 Attitudinal Loyalty Model

According to the BIC criterion, a single segment provided the best fit for our model of attitudinal loyalty. In other words, the data suggest that no significant heterogeneity exists when

it comes to consumers' attitudinal responses to CSR. Coefficient estimates are provided in the first column of Table 4. Beginning with the independent variables of focal interest in our research, we find that both extrinsic and intrinsic CSR have a significantly positive effect on attitudinal loyalty to a retailer.<sup>3</sup> Indeed, the magnitude of the effect is twice as much for extrinsic as it is for the intrinsic CSR, suggesting that, at least when it comes to attitudes, consumers are swayed by CSR in support of the broader social good even more than CSR that directly affects their exchange with the retailer. The effect of price is strongly negative, as expected. The interactions of both types of CSR are positive. However, only the intrinsic CSR – Price interaction is significant showing that negative attitudinal response to price is somewhat reduced when a retailer is perceived as performing well on intrinsic CSR. All the other retailer attributes also have the expected signs. Attitudinal loyalty increases with assortment variety and uniqueness, product quality, in-store service, location convenience, and the extent to which they perceive an affinity to other shoppers in the store. As might be expected, attitudinal loyalty suffers when other shoppers in the store are perceived to be wealthy.

< Insert Table 3 About Here >

#### 4.2 Behavioral Loyalty Model

In contrast to the model for attitudinal loyalty, the BIC supports a three-segment solution for behavioral loyalty, showing that there is more pronounced heterogeneity in behavioral response than in attitudinal response. Segment level parameters are reported in Table 3 and we discuss the profile of each of segment below.

*Segment 1.* Shoppers in this segment, which comprises 31.5% of our sample, are very responsive to retailers' CSR efforts: both the extrinsic and intrinsic CSR dimensions have

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<sup>3</sup> Price and CSR variables are mean-centered so the main effect coefficients can be interpreted as the effects at average values of these variables.

significantly positive effects on SOW. The price coefficient is not statistically significant, implying that this segment is not price sensitive. Price does interact significantly with CSR but, interestingly, the two CSR dimensions have opposite interaction effects. The extrinsic CSR interaction is positive showing that, customers in this segment are even less price sensitive if they perceive that a retailer does well on extrinsic CSR (environmental friendliness and community support). However, the intrinsic CSR interaction is negative: they do not think intrinsic CSR (fair treatment of employees and locally sourced products) justifies higher prices.

The remaining model coefficients provide a comprehensive profile of consumers in this “General CSR Responders” segment. They value location convenience and both the service and social aspects of the in-store experience. The perception that the clientele of a store is wealthy is not a negative for them, perhaps because they feel an affinity with a wealthy and less price sensitive clientele. They don’t care much about assortment variety per se but they patronize a store more if it carries unique items that are hard to find elsewhere.

*Segment 2.* The smallest segment, comprising 9% of the sample, responds much less to CSR than Segment 1: extrinsic CSR has a significantly positive but small coefficient and intrinsic CSR is insignificant. It is more price sensitive than Segment 1 (i.e., price coefficient is significantly negative), and CSR perceptions moderate the price sensitivity to some extent. In contrast with Segment 1, this segment’s response to high prices becomes a little more negative with extrinsic CSR and a little less negative with intrinsic CSR.

However, these CSR effects are quite small. What mainly characterizes this segment is the large value it places on location convenience and its dislike of deals. Thus, consumers in this “CSR Indifferents” segment want to get the groceries they need as conveniently as possible and

at an everyday low price that does not require them to search for deals. Other retailer attributes have little impact on their SOW.

*Segment 3.* This is the largest segment, comprising almost 60% of the sample, and it responds very differently to extrinsic versus intrinsic CSR. The two CSR constructs have opposite effects on SOW for consumers in this segment. Similar to Segment 1, they are positively influenced by a retailer's performance on intrinsic CSR (though the coefficient is smaller than that of Segment 1); however, extrinsic CSR actually *lowers* their SOW with a retailer. In other words, these "Intrinsic CSR Responders" respond positively when CSR is directly tied to their consumption experience (i.e., the store employees servicing them, or the locally sourced products they purchase), but when the CSR is not directly relevant to their shopping experience (such as general environmental friendliness or charitable support by the retailer), their response is negative. This is also the most price sensitive of the three segments. Moreover, CSR does not reduce their price sensitivity. Indeed, the opposite is true for extrinsic CSR: its interaction with price is negative, suggesting that a higher extrinsic CSR perception renders a higher retailer price level more salient for these customers.

Location convenience is quite important for these shoppers, though not quite as much as for the convenience driven second segment. Affinity with other customers and in-store service significantly improve SOW, even more than for segment one. In contrast to segment one, the perception that a retailer offers unique items not available elsewhere is associated with lower SOW. Consumers in this segment may view the presence of many unique items negatively

(possibly associating them with an elite or expensive retailer) or they may shop at these retailers mainly for these special items, leading to lower SOW.<sup>4</sup>

#### 4.3 Other Segment Characteristics

While the segment level model parameters discussed above reveal not only how each segment's SOW is affected by extrinsic and intrinsic CSR but also how much it responds to the other retailer attributes.<sup>5</sup> This information can be used by a retailer not only to predict which CSR initiatives will be rewarded more but also to determine which other retailer attributes should be emphasized both generally and in targeted communications to individual segments.

In addition, it is helpful to characterize segments in terms of panelist characteristics like demographic variables and to see if their CSR response is related to beliefs about how CSR affects corporate ability (Brown and Dacin 1997; Sen and Bhattacharya 2001). The bottom panel of Table 4 provides the effects of these two sets of variables on the probability of belonging to a particular segment, with segment three as the base case. The coefficient of a variable for each of the other two segments tells us its impact on the probability of being in that segment versus the "Intrinsic CSR Responders" segment.

We find that the probability that a panelist belongs to the "General CSR Responders" segment versus the "Intrinsic CSR Responders" segment is lower if the panelist believes that a retailer's CSR effort interferes with its core business of serving customers, consistent with previous findings from laboratory experiments (e.g., Sen and Bhattacharya 2001). Interestingly, there is no significant difference in perception of the extent to which CSR increases a company's

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<sup>4</sup> The insignificant effects of assortment variety and quality may appear counter-intuitive but we note that these attributes have higher means and smaller standard deviations (Table 1) than the others so the lack of significance may be because of their lower variation in the data.

<sup>5</sup> We also examined panelists' self-reported importance of different retailer attributes in the three segments and found that they are consistent with the latent segments revealed by our model. In particular, segment one has a significantly higher self-reported importance for CSR and a significantly lower self-reported importance for price and deals. Details are available from the authors upon request.

costs. The likelihood of being in the General versus Intrinsic CSR Responder segment is also higher for highly educated, and mid- and high-income customers. The convenience-seeking “CSR Indifferents”, on the other hand, only differ significantly from the Intrinsic CSR Responders in that they are older (more likely to be older than 65 years) and higher educated.<sup>6</sup>

#### 4.4 Managerial Significance of the CSR Effect

Overall, the model estimates discussed above support our framework and highlight the importance of distinguishing between extrinsic and intrinsic CSR dimensions and between consumer segments when it comes to behavioral loyalty. From a managerial viewpoint, it is important to understand the overall magnitude of the effect of CSR on SOW. Table 4 reports the SOW effect size when a firm improves its CSR perceptions by one standard deviation. The effect size is calculated at average prices, for each segment as well as for the total sample. The table shows that a standard deviation improvement in extrinsic CSR perceptions leads to a 11.6 percentage point increase in SOW for General CSR Responders, a 2.3 point increase for the CSR Indifferents, and a 4.4 point decrease for Intrinsic CSR Respondents. The total effect across the three segments is an increase of 1.3 percentage points. In contrast, the same improvement in intrinsic CSR perceptions results in 8.7 point, 0, and 5.5 point SOW increases for the three segments, respectively. The total effect across the three segments is an increase of 6 points.

< Insert Table 4 About Here >

By any standard, the impact on SOW, especially of intrinsic CSR, is very meaningful. Total U.S. supermarket sales exceed \$550 billion annually and median store sales is over \$25 million (Food Marketing Institute 2009), so every SOW point carries a substantial dollar amount. For instance, consider the case of Kroger, one of the largest U.S. grocery chains with

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<sup>6</sup> We also repeated all of our analysis with four separate CSR measures and found little substantive difference in results. Details are available from the authors upon request.

approximately \$76 billion in annual sales. It recorded a market share gain of 61 basis points (0.61%) in its major markets in 2008, and a total gain of 225 basis points over a four-year period. These market share gains were considered very “impressive” in its press release announcing the fiscal year results (The Kroger Company 2009).

## **5. Conclusion**

We have used field data to quantify the impact of competing grocery retailers’ CSR performance on consumers’ attitudinal and behavioral loyalty towards them. We distinguish between different CSR dimensions as well as between consumer segments in the model. Our key findings are as follows:

- (a) There is an important substantive distinction between attitudinal and behavioral loyalty. Not only do both extrinsic and intrinsic CSR have similar effects on attitudinal loyalty, there is little heterogeneity across consumers in attitudinal response.
- (b) When it comes to behavioral loyalty, as measured by SOW however, we definitely see a strong case for benefit segmentation. There is a segment of consumers that rewards both extrinsic and intrinsic CSR activities with higher SOW, but there is another segment, twice as big, that only rewards intrinsic CSR and actually responds to extrinsic CSR with lower SOW. The negative CSR response for this segment appears to be driven by a belief that engaging in environmental and social programs detracts from a company’s ability to serve its customers.
- (c) These segments can be distinguished based on several other important characteristics such as their price sensitivity, their utility for unique items, their education and income status.
- (d) The overall effect of CSR on SOW is managerially very significant. If a retailer is able to improve consumers’ perceptions of its intrinsic CSR by a standard deviation, our model estimates an increase in SOW of 6 percentage points.

(e) There is little evidence that CSR brings an added advantage through reduced price sensitivity. Although intrinsic CSR strongly increases SOW, most consumers do not believe it justifies higher prices.

These empirical findings have several important managerial implications. First, not all CSR initiatives are equally important or meaningful. The best CSR initiatives for a company are closely integrated into the company's core customer offering. CSR activities that are directly tied to the customer's experience with the firm – the front-end employees, the products, and the purchase context – generate a higher return that is less contingent upon consumers' idiosyncratic beliefs about the relationship between CSR and corporate abilities.

Second, our results highlight the importance of strategic targeting in CSR communications to consumers. For the largest segment, communicating broader CSR initiatives not pertaining to the retailer's core offering affects their SOW outcomes negatively, while the effect is positive for the second largest segment. This implies that while intrinsic CSR lends itself to a more uniform, mass-market communication approach, extrinsic CSR is more nuanced and requires both careful messaging and careful targeting. This is definitely both feasible and cost-effective for a retailer that already has a loyalty program and communicates directly with its consumers, e.g., through e-mail. For instance, all consumers should receive information about a retailer's local product selection and related consumption benefits such as freshness and lower pesticide levels. But, only the higher educated, higher income consumers who use reusable bags or support environmental organizations should receive information about the environmental benefits of local products and the retailer's environmental and community support programs.

Third, companies should not shy away from CSR initiatives simply because they are costly – our research shows that the rewards of more favorable CSR perceptions are economically and

strategically meaningful. Although the SOW gain for extrinsic CSR is only 1.3 points on average, it could be 11.6 points for the General CSR Responder segment if precise targeting were executed. This segment is not one that a retailer should ignore – it is almost a third of the sample and comprises loyal consumers that the retailer can ill-afford to lose.<sup>7</sup> Further, extrinsic CSR does influence attitudinal loyalty and it may lead to other pro-firm behavior not captured in the SOW measure, such as word of mouth referrals and advocacy, and higher willingness to overlook negative information about the firm or to forgive occasional lapses (Bhattacharya and Sen 2004; Klein and Dawar 2004).

Fourth, it is dangerous for companies to charge higher prices for products under the assumption that CSR makes consumers less price sensitive. This is particularly the case for intrinsic CSR initiatives. For instance, consumers may believe that local products are actually less expensive for retailers to source and therefore their reaction to higher prices for such products may be particularly negative. Indeed, the business press reports that retailers like Wal-Mart are increasing their local product selection to satisfy consumers but are also finding that local sourcing lowers their costs (Bustillo and Kesmodel 2011).

Fifth, our results underscore the importance of distinguishing between attitudinal and behavioral loyalty in CSR research. Previous studies have suggested that positive attitudes engendered by CSR may not translate into higher purchase incidence, but, to the best of our knowledge, the current research is the first to quantify the attitude-behavior gap in CSR impact. As far as attitudes are concerned, consumers in our sample uniformly exhibit positive reactions to retailers' CSR performance. However, whether this is reflected in their purchase behavior is highly consumer- and CSR domain-specific. The attitude-behavior gap we have identified is

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<sup>7</sup> In our sample, this segment's average SOW at the focal retailer is 81.6% versus 31.1% for Intrinsic CSR Responders.

particularly important given that most prior CSR research on consumers has relied on attitudinal and purchase intention data.

In conclusion, we note the limitations of our work and some important future research opportunities. First, our sample comes from the loyalty program of the focal retailer who is strongly positioned on CSR. Although much other empirical work has also been done using loyalty program members, we recognize that consumers in our sample may not be representative of the population as a whole. In particular, they may be more responsive to CSR, having chosen to enroll in the focal retailer's program. Even for this sample, we find considerable heterogeneity in CSR response, with almost two thirds exhibiting negative response to extrinsic CSR. Our results may reasonably be viewed as an upper bound on the SOW returns of CSR. We hope future research can validate our findings with a broader sample. Second, we have identified segments of consumers and been able to develop profiles that can be used for targeted messaging. However, we have not delved deeply into the underlying reasons for consumers' distinct perspectives about CSR. We leave that as an important avenue for future research. Third, we studied the major stakeholder group for grocery retailers, but it is also important to study how other stakeholders such as employees and investors respond to each CSR dimension. As we noted earlier, CSR dimensions like environmental friendliness and community support may well have significant effects on these stakeholders and therefore on financial returns even though they have little direct impact on consumers' behavioral loyalty. Finally, we examined the impact of CSR dimensions in the grocery retail industry. We hope future researchers will build on our work by conducting field-based analysis of the impact of CSR dimensions in other consumer and business-to-business industries.

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**TABLE 1**  
**MEASUREMENT OF MODEL VARIABLES**

Variables	Mean	SD	Survey Items <sup>a,b</sup>
<b><i>Dependent Variables</i></b>			
Attitudinal loyalty (ALOY) ( $\alpha = 0.87$ )	3.84	1.03	I consider myself a loyal customer at Retailer A. I would recommend Retailer A to my friends. I would go out of my way to shop at Retailer A.
Behavioral loyalty (SOW)*	0.45	0.32	In the last 6 months, what percentage of your grocery spending was in Retailer A? (0-100%)
<b><i>CSR</i></b>			
Extrinsic CSR (ExtCSR) ( $\alpha = 0.91$ )	3.87	1.15	I believe that Retailer A has environmentally friendly policies. I believe that Retailer A cares about the local community.
Intrinsic CSR (IntCSR) ( $\alpha = 0.76$ )	3.60	1.09	I believe that Retailer A offers a large selection of local products. I believe that Retailer A treats employees fairly.
<b><i>Other Retailer Attributes</i></b>			
Price (Price) ( $\alpha = 0.66$ )	2.93	0.92	I can get the same items at lower prices in other stores than Retailer A. Prices at Retailer A are good compared to other stores. (reverse coded)
Quality (Qual) ( $\alpha = 0.90$ )	4.09	0.99	I am confident in the quality of products at Retailer A. The quality of products sold at Retailer A is high.
Deals (Deal) ( $\alpha = 0.71$ )	3.67	0.80	There are special deals available on many products at Retailer A. When items are on sale at Retailer A, the discounts are deep.
In-store experience (Instor) ( $\alpha = 0.79$ )	3.88	0.93	The atmosphere at Retailer A is pleasant. Help is always available when I need it at Retailer A. It is easy to find things at Retailer A.
Assortment variety (Variety)	3.99	0.99	Retailer A offers a big selection of items in many product categories.

Unique items (Unique)	3.75	1.31	I can find unique products at Retailer A that are not available elsewhere.
Similar shoppers (Similar)	3.50	1.01	I have a lot in common with others who shop at Retailer A.
Wealthy shoppers (Wlthy)	3.27	1.25	Shoppers at Retailer A tend to be wealthier than at other stores.
Location convenience (Convloc)	3.75	1.30	Retailer A's location is convenient for me.
<b><i>Consumer Characteristics</i></b>			
Age	0.11	0.31	Age-Low =1 if age is less than 35 years, 0 otherwise (base case)
	0.65	0.48	Age-Mid =1 if age between 35 and 65 years, 0 otherwise
	0.24	0.43	Age-High = 1 if age greater than 65, 0 otherwise
Income	0.14	0.35	Income-Low=1 if household income is less than \$50K , 0 otherwise (base case)
	0.32	0.47	Income-Mid =1 if household income is between \$50K and \$100K, 0 otherwise
	0.32	0.47	Income-High = 1 if household income is greater than \$100K, 0 otherwise
	0.23	0.42	Income-No Report = 1 if respondent prefer not to report income, 0 otherwise
Education	0.05	0.22	Educ-Low = 1 if high school education or less, 0 otherwise (base case)
	0.47	0.50	Educ-Mid = if college education, 0 otherwise
	0.48	0.50	Educ-High = 1 if more than college graduation, 0 otherwise
CSR-Ability Belief (CSR-CA)	2.30	1.06	Environmental and social responsibility makes it difficult for companies to best serve their customers.
CSR-Cost Belief (CSR-Cost)	3.62	0.89	Environmental and social responsibility programs increase a company's costs.

- a. All items except SOW are measured on a 5-point scale with 5 = "strongly agree" or "extremely important" and 1 = "strongly disagree" or "not at all important".
- b. In the survey, "Retailer A" is replaced by each retailer's actual name.

**TABLE 2**

**CORRELATIONS AMONG MODEL VARIABLES**

	SOW	ALoy	ExtCSR	IntCSR	Price	Qual	Deal	Instor	Assort	Uniq	Similar	Wlthy	Convloc
SOW	1												
Att. Loyalty	.55	1											
Extrinsic CSR	.36	.72	1										
Intrinsic CSR	.39	.69	.86	1									
Price	-.07	.01	.33	.33	1								
Quality	.36	.76	.83	.80	.26	1							
Deals	.17	.25	.06	.05	-.41	.10	1						
In Store Experience	.41	.72	.77	.77	.17	.77	.19	1					
Assortment Variety	.24	.41	.38	.37	-.06	.42	.31	.45	1				
Unique Items	.25	.63	.76	.73	.33	.73	.04	.63	.37	1			
Similar Shoppers	.39	.57	.55	.54	.09	.55	.18	.55	.35	.46	1		
Wealthy Shoppers	.22	.47	.69	.71	.51	.64	-.15	.55	.20	.64	.41	1	
Conv. Location	.37	.27	.30	.30	.12	.29	.06	.32	.09	.20	.27	.24	1

**TABLE 3**  
**LOYALTY MODEL ESTIMATES**  
**(n=4345)**

Independent Variable	Attitudinal Loyalty	Behavioral Loyalty (SOW)		
		Segment 1 Gen.CSR Resp. (31.5%)	Segment 2 Indifferents (9.0%)	Segment 3 Int.CSR Resp. (59.5%)
<b>Effects on Loyalty</b>				
Extrinsic CSR	.165*** (.018)	.101*** (.011)	.020* (.011)	-.038*** (.011)
Intrinsic CSR	.078*** (.018)	.080*** (.011)	.004 (.012)	.050*** (.011)
Price	-.224*** (.012)	-.004 (.008)	-.017** (.008)	-.072*** (.007)
Ext.CSR*Price	.010 (.016)	.033*** (.011)	-.018* (.010)	-.019** (.009)
Int.CSR*Price	.054*** (.016)	-.035*** (.012)	.025** (.012)	-.001 (.009)
Assortment Variety	-.004 (.010)	-.002 (.006)	.004 (.624)	.004 (.006)
Unique Items	.091*** (.011)	.032*** (.007)	-.003 (.008)	-.031*** (.005)
Product Quality	.336*** (.018)	.006 (.011)	-.006 (.011)	.007 (.010)
Deals	.072*** (.013)	-.005 (.008)	-.017* (.009)	.011 (.008)
In-store Service	.186*** (.017)	.024** (.011)	.009 (.011)	.040*** (.010)
Similar Shoppers	.132*** (.011)	.014* (.007)	.005 (.007)	.046*** (.006)
Wealthy Shoppers	-.021* (.011)	.020*** (.007)	-.006 (.007)	-.008 (.006)
Location Convenience	.018*** (.007)	.011** (.005)	.255*** (.004)	.039*** (.004)

**TABLE 3 (Continued)**

Independent Variable	Attitudinal Loyalty	Behavioral Loyalty (SOW)		
		Segment 1 Gen.CSR Resp. (31.5%)	Segment 2 Indifferents (9.0%)	Segment 3 Int.CSR Resp. (59.5%)
<b>Effects on Segment Membership Probability</b>				
CSR-Ability Belief		-.442 <sup>***</sup> (.065)	-.090 (.097)	
CSR-Costs Belief		-.051 (.069)	-.146 (.114)	
Education-High		.894 <sup>***</sup> (.335)	2.066 <sup>*</sup> (1.246)	
Education-Mid		.570 <sup>*</sup> (.333)	1.018 (1.253)	
Income-High		.358 <sup>*</sup> (.205)	.109 (.346)	
Income-Mid		.065 (.208)	-.066 (.346)	
Income-No Report		.325 (.214)	-.059 (.367)	
Age-High		.290 (.231)	1.043 <sup>**</sup> (.435)	
Age-Mid		.141 (.205)	.631 (.420)	
<sup>***</sup> p<0.01; <sup>**</sup> p<0.05; <sup>*</sup> p<0.10 Standard errors are in parentheses				

**TABLE 4**  
**MAGNITUDE OF THE CSR EFFECT**

Variable	Mean Value for			Total
	Segment 1 Gen.CSR Resp.	Segment 2 Indifferents	Segment 3 Int.CSR Resp.	
Extrinsic CSR	11.6%	2.3%	-4.4%	1.3%
Intrinsic CSR	8.7%	0	5.5%	6.0%

**FIGURE 1:  
THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY**

