THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CUSTOMER LOYALTY AND EMPLOYEE SATISFACTION IN BOSNIA AND HERZEGOVINA

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Abstract

The aim of the study is to investigate consumer attitudes towards specific Customer Social Responsibility Activities in Bosnia and Herzegovina. In order to support this research, a case study method, combined with qualitative and quantitative research methods (referenced survey) was used. To get an insight into the companies’ perspective, when it comes to an engagement in the employment practices, as an integral part of Corporate Social Responsibility, data regarding “The Most Desirable Employer” project- “Najpoželjniji poslodavac”, organized by Kolektiv d.o.o.-MojPosao.ba, for years 2020, 2019 and 2018 will be analyzed. The study should illustrate the exact scenario of customer loyalty in Bosnia and Herzegovina to the companies included in CSR activities and contribute to an advancement of overall knowledge in the field of CSR in Bosnia and Herzegovina. The directing outcome uncovers those corporate capacities have a critical part in fortifying the relationship between corporate social responsibility drives and customer trust in Bosnia and Herzegovina, in light of the fact that high corporate capacities with professional corporate social responsibility actions lead to high faithfulness of customers. The examination features the meaning of the corporate social responsibility activities, which are obligatory for authoritative achievement and guides the policymakers of companies, supervisors, and researchers.

Keywords: Corporate Social Responsibility (CSR), Customer Loyalty, Philanthropy, Ethics, Economic and Environmental Sustainability, Customer Behavior.

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1. Introduction

Corporate Social Responsibility is defined as “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders” (What Is CSR? | UNIDO, 2021). According to UNIDO, a balance of economic, environmental and social imperatives, what is also known as “Triple-Bottom-Line-Approach, is achieved through Corporate Social Responsibility. Additionally, the expectations of shareholders and stakeholders are addressed. Thus, Corporate Social Responsibility can represent very important business management concept of a company, or a category of business self-regulation method, with the goal of achieving social accountability. Key CSR issues are: “environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labor standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures (What Is CSR? | UNIDO, 2021).” The only acceptable style in which organizations can pursue CSR is nonexistent; numerous corporate social responsibility actions endeavor to decidedly add to the general population, the wealth and resources of a community, municipality, city, country or region, or the climate. In the present socially deliberate conditions, representatives of companies and clients devote the special attention on working for and investing in the businesses which focus on Corporate Social Responsibility. There are four main types of Corporate Social Responsibility, most often recognized in the literature:

- Environmental efforts: CSR efforts to minimize environmental impact of a company
- Philanthropy: utilizing charity to help the wider community, by donating products, money, or services to those in the condition of a social need
- Ethical labor practices: treating employees in an ethical and fair manner
- **Volunteering**: participating in community events, without any financial expectations, expressing the support to specific issues and social cases (Schooley, 2021)

Good examples of Corporate Social Responsibility can include:

- An engagement in charity work
- An engagement in volunteer work
- Purchase of fair trade products
- Reduction of carbon footprint
- An improvement of labor policies
In terms of customer loyalty, “purpose-led branding” is recognized as an interesting criterion. A purpose-led brand has an ability of creating an emotional and empathetic connection with customers, offering not only a product or a service it is selling, what could lead to impacting purchasing behavior, by building a strong connection of customers to brand identity (Understanding What Is Corporate Social Responsibility | VU Online, 2020). However, if we put aside all the positive effect CSR can bring to a company, we notice there is a trap when it comes to this concept, which may be detrimental to the company’s business, with the special focus on financial performance. Investing in ethical goals and supporting environment and community is not cheap. If it is not well-planned, specific CSR strategy can cost a company and bring it large financial and time losses. Relying on smart strategies to plan, execute and measure should be the key towards the success of CSR; however, success is never guaranteed, and it depends not only from the management and employees of a company, but also on external factors, as an acceptance of specific project by society, time period, popularity the project has achieved in the public and other, similar factors. CSR strategy that is organized in an unsatisfactory was that doesn’t achieve what it is supposed to and it can easily become a failure and business liability. The influence of poorly executed CSR strategy on a business’s reputation could be undesirable, and the society will agitate company’s future actions.

**Problem Statement**

The exact scenario of customer loyalty in Bosnia and Herzegovina to the companies included in CSR activities should be examined as the main problematic, leading to the expected results of the contribution to an advancement of overall knowledge in the field of CSR in Bosnia and Herzegovina. This research develops the underlying mechanism through which corporate social responsibility influences the customer loyalty, by including corporate reputation, customer satisfaction, and customer trust as mediators, and corporate abilities as a moderator, at the same time. Questions that will be answered as an integral part of this work are:

- Do Corporate Social Responsibility actions affect customer loyalty in Bosnia and Herzegovina and to what degree?
- Do customer satisfaction and customer trust tighten the connection between Corporate Social Responsibility and customer loyalty in Bosnia and Herzegovina?
- Is Corporate social reasonability positively related to corporate reputation?
- Does Corporate Social Responsibility influence the level of employee satisfaction in Bosnia and Herzegovina?
2. Literature Review

CSR initiatives involve broad amount of activities, including programs and policies (Budur and Demir, 2019). Twenty heterogeneous practices of CSR are recognized by Welford (2004, 2005). Carrol (1991) proposed the model according to which there are four main aspects of CSR: ethical, legal, economic, and philanthropic. Conceptual framework of the impact Corporate Social Responsibility dimensions on customer loyalty is given in the following figure:

![Figure 1: Conceptual framework of the impact Corporate Social Responsibility dimensions on customer loyalty (Carrol, 1991)](image)

Corporate Social Responsibility activities are usually oriented to a broader range of stakeholder groups, however, this study analyses the consumers and employees as the target groups. Consumers are perceived as highly important members of a companies’ stakeholders (Budur and Poturak, 2021). Without them, business-creating, delivering and selling products and services is pointless and impossible, because they belong to the group of stakeholders to whom companies relate (Budur, 2018; Poturak et al. 2020). Inside of a consumer stakeholder group, CSR activities can help organizations come to the better evaluation of a product (Brown & Dacin, 1997), increased potential of purchasing, improving public brand image (Fombrun, Gardberg, & Barnett, 2000). When reading the literature, we can notice that various studies claim that Corporate Social Responsibility has an impact on consumer behaviour (Creyer & Ross, 1997; Marquina & Vasquez-Parraga, 2013; Brown & Dacin, 1997; Lee, Park, Rapert & Newman, 2012). Additionally, some authors have an opinion that customers are the most important stakeholders (Budur et al., 2018; Torlak et al., 2019). In 1984, Freeman declared that “consumers are considered the stakeholder that is most affected by the achievement of the goals of an organisation” (Freeman, 1984, p. 46). Social betterment is recognized as the most
important motive of Corporate Social Responsibility. Companies have an ethical responsibility of supporting the community they operate in, because that community is one of the factors which is bringing them profit (Mohammed et al., 2020; Rashid et al., 2020). They have to follow ethical norms and values (Carroll, 1991; Zaim et al., 2020). Corporate Social Responsibility should not be viewed as a way to achieve large wealth-rather a strategic tool of achieving an economic objective and supporting society (Garriga & Melé, 2004).

3. Research Methods

For the purposes of writing this paper, besides from the literature review, highly connected to the topic which is the subject of analysis, case study method, connected to the specific case of the situation regarding Corporate Social Responsibility practices in Bosnia and Herzegovina, applied on “The Most Desirable Employer” project- “Najpoželjniji poslodavac” survey for years 2020, 2019 and 2018, organized by Kolektiv d.o.o.-MojPosao.ba will be used, together with the research conducted by Nataša Tandir and Senad Redžić, from International Burch University, Bosnia and Herzegovina, published in Ecoforum, [Volume 9, Issue 2(22), 2020], as the part of scientific paper “Connecting Corporate Social Responsibility And Competitive Advantage On The Retail Sector Of Bosnia And Herzegovina”, will be used as one of the main sources of statistical data, and adequately referenced. As a part of the research, which targeted different areas across the country, with the special focus on the population of large cities, these scientists conducted the professional survey, which involved 432 respondents from 15 different regions of Bosnia and Herzegovina, aged between 18 to 65+ (median age 30 years old), among which 75% of respondents were females, while 24% of respondents were males. The familiarity and knowledge with the term Corporate Social Responsibility represented one of the main interest of the research. Researchers were led by the thought that there is broader range of companies, competing for the customers, with not highly differentiated, but rather similar products and services, in larger cities. Also, they were led by the thought that customers in larger cities are more exposed to the general information regarding Corporate Social Responsibility activities, media inclusion, advertising. Research method of this survey, which is used both in qualitative and quantitative studies, represents “questioning individuals on a topic and then describing their responses” (Tandir & Redzic, 2020). Qualitative analysis represents subjective judgment, based on non-quantifiable data. Quantitative analysis represents an approach with the focus on mathematical and statistical analysis. Statistical analysis involves performing several statistical operations, in order to quantify the data and
apply statistical analysis. A case study represents study of a specific subject, such as a person, group, event, country, place, organization, or phenomenon. The survey, which consists of seventeen questions whose aim is to examine the perception of buyers towards CSR, and to measure its overall impact on trust and buying decisions of customers, was created following the research of Valerie Swaen and Ruben C. Chumpitaz I, published in the article “Impact of corporate social responsibility on consumer trust” (Swaen and Chumpitaz, 2008). Parts of the survey are: demographic data, understanding the concept of Corporate Social Responsibility, measuring its influence, its contribution to obtaining competitive advantage, and the relationship among the reliance and customer decisions. Survey was done in the period between 20 January and 20 February, 2020. Authors collected data by using Google Forms, while statistical analysis was conducted in SmartPLS 3.

“The gender of survey respondents has been 75% female and 25% male, arranged by age 0.70% or of the respondents are under 18 years old, 15.70% are 18-24, 37.50% are 25-34 and 31.30% are 35-44 years old, other 14.90% are over 45 years old. When asked about employment status, the data show that 75.20% of the respondents are employed and other 24.80% unemployed. The question about number of household members received following answers; 69.20% of the respondents live in a household with 1-2 members, 19.00% live with 3-4 people in a household and 11.80% with 5 or more household members. Also, one of the demographic information gathered is about the total monthly income in the household and the answers are following; up to 500 BAM or 255,6 € have 2.50%, 500 to 1000 BAM or 255,6 up to 511,30 € have 16%, 1000 to 2000 BAM or 511,30 to 1022,60 € have 38.90%, 2000 to 3000 BAM or 1022,60 to 1534,00 € have 25.50% of the respondents, only 17% of the respondents have a total household income over 3000 BAM or 1534,00 € (Tandir & Redžić, 2020). “

According to their analysis, Tandir and Redžić constructed the following model in SmartPLS 3:
Figure 2: SmartPLS model (Tandir & Redzic, 2020)

Although there is no an official database of socially responsible companies in Bosnia and Herzegovina, data interesting for this paper can be found at the website http://www.poslodavac.ba/, an official website of the project “Najpoželjniji poslodavac”, organized every year by Kolektiv d.o.o - MojPosao.ba.

In the huge competitiveness of the company, it is important that managers position their company as an ideal job opportunities place, where every candidate wants to work and progress and this is exactly the way employers will attract potential employees with strong qualifications, responsibility and willingness to work, which is the most important prerequisite for company progress (Budur, 2020; Budur and Poturak, 2021a). Employer branding is a very important part of a company's marketing strategy aimed at creating or increasing the attractiveness of the employer, and retaining and attracting employees, so that employers have a reputation (Serin, 2018). Employer branding also refers to the actions and behavior of members of a particular company, culture, organization, and company practice (Budur et al., 2019). A strong brand of an employer, in the minds of potential candidates, evokes both emotional and rational reasons why companies are perceived as employers who take care about the needs and personal development of employees (Sahin, 2021). During the ten years of existence, Posao.ba, now known as Kolektiv d.o.o - MojPosao.ba, has been working intensively on the promotion and improvement of all processes related to human resources management,
generally on the promotion of this relatively new industry in our country. Kolektiv d.o.o - MojPosao.ba works to raise awareness among employers about the importance of creating a good image of the company as an ideal place to work in the minds of employees of active and passive job seekers. In most cases, the decision on whether to apply for a job or not, is based on the image or brand of the company that is looking for employees. Kolektiv d.o.o - MojPosao.ba Branding helps employers with target groups - talented candidates – to create an image of the company as an ideal place to work that everyone wants to work for. In accordance with that, every year, they organize the project “Najpoželjniji poslodavac”-“The Most Desirable Employer”.

“The Most Desirable Employer” project was launched in 2007, when MojPosao.ba portal organized the first survey on companies that job seekers from Bosnia and Herzegovina would like to work for. In this way, insight that citizens have about companies as employers and what factors influence their perception in BiH is gained. The goal of the project “The most desirable employer” is to promote positive human resource management practices in BiH. In this way, companies are additionally motivated to improve their relations with employees, and to offer better conditions for work, development and education. The choice of the most desirable employer is mostly influenced by the company's investment in human resources management and the good image or brand of the employer. Awarding the title and trademark "The Most Desirable Employer" allows the company to position itself in the minds of candidates as a place where they would like to work and progress and this is exactly the way the employer will attract potential employees with strong qualifications, responsibility and willingness to work. “The Most Desirable Employer” Award Ceremony is organized every year and is one of the most important events in the BiH business environment. The most desirable employer is chosen by the users of the MojPosao.ba portal, the leading web portal for employment and one of the most visited web portals in BiH. Every year, the event gathers over 100 owners and directors of companies, HR and marketing managers, and the most important representatives of political and economic life in BiH, and it is reported by all the most important media in the country and the region (Poslodavac, 2018).

In terms of research methodology, “The Most Desirable Employer” survey covers issues that determine the structure of respondents (age, gender, education, employment status, position in the company, etc.), and examines respondents' perceptions of the most desirable employers, factors that make the company the most desirable employer (salary, job security, regular
salaries), the possibility of progress in the profession, business reputation of the employer, harmonious relations in the company, the employer's attitude towards workers, leadership in the sector, social responsibility, etc.), and questions about the mobility of respondents due to work and whether they are already employed by the most desirable employer. The survey “The most desirable employer in BiH” each year includes a large number of companies nominated by the respondents, from which the top 100 companies that won the largest number of votes are selected. The results of the research provide an insight into the ranking of the 10 most desirable employers in BiH in the overall ranking, and an overview of the most desirable employers in the 15 largest sectors in BiH. The COVID-19 pandemic has irreversibly changed the way population works and lives. Employers had to introduce new work models in a short period of time, and to take additional care of the safety of their employees. In the new conditions, it was more important for employers than ever to listen to the needs of their employees and create a stimulating and safe working environment in order to remain a desirable and market-competitive employer even after the crisis. MojPosao.ba portal wanted to investigate how much the perception of citizens about the most desirable employers has changed during 2020, and what factors influenced that. For this purpose, two surveys were conducted during 2020, on whom BiH citizens consider them the most desirable employer, or for whom they want to work. The first Most Desirable Employer 2020 survey was conducted in early 2020, before the COVID-19 pandemic, and the second survey, “Who Would You Like to Work for”, was conducted in late 2020. The most important factor for choosing an employer before the pandemic was a good attitude towards employees, while during the COVID-19 pandemic the most important factor was job security. Among other factors that influenced the choice of employer during the pandemic are:

- Good company attitude towards employees from before
- The image that the employer has from before
- Good company attitude towards employees during the COVID-19 pandemic
- Employer social responsibility during the COVID-19 pandemic
- Positive worker protection measures implemented by the company during the COVID-19 pandemic

5. Results

When it comes to the results, they are consistent with prior literature standards, showing that all the constructs are significant. Corporate Social Responsibility is a key construct to build a
competitive advantage by enhancing customer loyalty. Putting resources into CSR activities, perceived as important by company’s managers, observing and listening to the customer need and willingness should unquestionably bring a significant advantage for organizations, including a high standing, the trust of the customer and high faithfulness. In light of these results, this examination uncovered that reputation has a strong intervening impact on client devotion like trust, brand-loyalty and fulfillment. Philanthropy is highly expressed characteristics of customers in Bosnia and Herzegovina. Ethics affects their trust, what further affects buying decisions. Social and economic sustainability affect their trust, what further affects buying decisions. Environmental sustainability directly affects buying decisions.

Considering to everything stated above, authors came up with the following results:

“There is a negative observation on the general awareness of CSR where on the just 13.2% of the respondents are familiar with the term and its meaning and 22.2% know it meaning partly. Other 64.6% of the respondents are unaware or partly unaware with CSR and its philosophy. On the other side, after introduced to the general meaning and the importance of CSR the received data varies. In accordance with the previous, 51.4% of the respondents said that it is important to them that companies base their business on the fundamentals of CSR concepts and 26.6% said it is extremely important to them. The analysis of collected demographic data and the results obtained are explained in continuation (Tandir & Redzic, 2020).”

According to the public opinion in BiH, after the conduction of “The Most Desirable Employer” survey, the most desirable employer in BiH for 2020 is the company dm drogerie markt, which has been awarded this title for the fifth year in a row. Hifa Petrol and Violeta d.o.o. shared the second place, while Bosnalijek was positioned at the third place. Other companies, that are on the list of top ten most desirable employers in Bosnia and Herzegovina, are: BH Telecom d.d. Sarajevo, Coca Cola HBC B-H d.o.o., JP Elektroprivreda BiH d.d. Sarajevo, HoldINA, AlJazeera Balkans d.o.o. Sarajevo, UniCredit Bank, and NLB Banka. Not only that Kolektiv d.o.o - MojPosao.ba created the list of TOP 10 employers in Bosnia and Herzegovina; additionally, surveys observing TOP 3 companies in different business sectors were conducted. These sixteen sectors are: distribution companies, financial sector, fast-moving consumer goods sector (FCGM), ICT sector, public sector, fashion and retail sector, gas and oil companies, retail companies, food sector, production sector, media, pharmacy, accounting and revision, catering, hotel and tourism, marketing and PR, business process outsourcing (BPO). For the year 2019, the list of TOP 10 employers had similar order as for
the year 2019. In accordance with that, we can notice that same companies are constantly investing in human resources, employee satisfaction and working conditions improvement:

Figure 3: TOP 10 employers in Bosnia and Herzegovina in 2019 (Poslodavac, 2020)

For the year 2018, the list of TOP 10 most desirable employers was significantly different in comparison to 2019 and 2020. Companies m:tel, JP Autoceste FBiH, JP BH Pošta, JP Elektroprivreda HZ HB d.d., JU Apoteke Sarajevo, JP HT d.d. Mostar-HT Eronet, Visoko sudsko i tužilačko vijeće, Pošte Srpske were at the list, prior to the domination of prevailing other large companies in 2019 and 2020 (dm drogerie markt, Hifa Petrol, BH Telecom d.d. Sarajevo, Coca Cola HBC B-H d.o.o., JP Elektroprivreda BiH d.d. Sarajevo, HoldINA, AlJazeera Balkans d.o.o. Sarajevo, UniCredit Bank, and NLB Banka), which means that survey participants have become more supportive of these corporations and companies, than in previous years; also, higher quality of relations towards employees is certainly the most important factor of dominance, what was recognized by employees. Accordingly, the next figure shows TOP 10 employers in Bosnia and Herzegovina in 2018:
When asked what measures were taken by the employers they voted for during the pandemic, respondents stated that:

- The largest number of companies (70%) implemented hygiene measures and provided protective equipment at work
- A large number of them (62%) proved to be socially responsible
- More than half of the companies (59%) introduced work from home wherever it was
- The majority of companies (58%) selected as the most desirable employers did not take measures that were negative for employees, while one part of the company did
- 23% of them sent workers on forced annual leave
- 14% reduced employee benefits
- 6% reduced salary
- 5% laid off workers (Business-magazine, 2021.)

Taking into account the above stated, following hypothesis are justified for this study:
H1 Philanthropy of customers in Bosnia and Herzegovina affects their buying decisions.

H2 Companies engage in Corporate Social Responsibility activities in order to improve their promotion and overall business.

H3 Customer satisfaction and customer trust tighten the connection between Corporate Social Responsibility and customer loyalty in Bosnia and Herzegovina.

H4 Corporate social reasonability is positively related to corporate reputation.

H5 Customer loyalty to a company is higher when CSR activities are high, and it is weaker while CSR activities are low.

H6 Corporate Social Responsibility and excellent working conditions influence the level of employee satisfaction in Bosnia and Herzegovina.

H7 During the crisis period, companies which are nominated as wanted employers become even more socially responsible.

6. Discussion and Conclusion

By investing in corporate social responsibility actions, an association procures a pledge to society and partners to add to reasonable turn of events and social government assistance, applying both neighborhood and worldwide guidelines, just as keeping up with moral conduct and giving straightforward screening of the process. As a part of globalization, it is highly important for companies to connect corporate social responsibility with sustainability, what makes the corporate impact positive by contributing to economic, social development, and environmental factors. In order to achieve sustainability, companies have to promote the development of their corporate strategy, what will affect improving business performance together with positive social and environmental impact, thus strengthening customer loyalty of customers in Bosnia and Herzegovina, who are, despite to the fact that the country is an upper middle-income country, with an average net salary of 985 BAM in April 2021, and an unemployment rate of 35.5% in 2019, according to the official data of Agency for Statistics of Bosnia and Herzegovina (BHAS, 2021), highly significant consumers for domestic economy, who ensured the survival of domestic economy during COVID-19 pandemic, when the arrival of tourists and diaspora was reduced to a historic minimum. In order to educate the broader public regarding the concept of CSR and to build higher consumer loyalty, companies can
organize sponsorships of sport, cultural or artistic events (respecting COVID-19 epidemiological measures), or other types of socially acceptable events, support building of kindergartens, schools, children playgrounds, animal asylums, renovation of educational and cultural institutions, investing in education process, recruiting successful students and supporting them with scholarships/internships, investing in ecologically-accepted business models, providing employees excellent working conditions and higher salaries, as well as other initiatives considered by consumers to be legitimate, and cover them with their corporate social responsibility funds, what would contribute to the promotion, social and financial wellbeing of a company, in the long run. In terms of employee satisfaction, when employees feel empowered to improve their own satisfaction, based upon good example of creating satisfactory working environment and conditions by a company they work for, employees will have higher working motivation and do their jobs better, what will significantly contribute to the overall companies’ performance, as well as its’ image in the public. However, it is very important to balance between companies’ needs and employees’ needs, in order to have both sides satisfied, without anyone suffering because of the wellbeing of other side. Achieving an emotional state in which employees feel passionate, enthusiastic, energetic, and committed toward their work should be long-term goal of every company—thus, positive effects will be seen on their financial statements. Slavery is long gone as a concept, and we live in a time of race for a better place, and in a time of workers’ benefits. Without satisfied workforce, there is no quality job executed.

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