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<http://hdl.handle.net/11067/1389>

**Metadata**

**Issue Date** 2015-01-21

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**Keywords** Responsabilidade social das empresas, Branding (Marketing)

**Type** article

**Peer Reviewed** No

**Collections** [ULF-FET] IJEIM, n. 4 (2012)

This page was automatically generated in 2025-01-24T13:23:40Z with information provided by the Repository

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# THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY IN THE BRAND IMAGE - THE “NESPRESSO” CASE STUDY<sup>1</sup>

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**Abstract:** The purpose of this paper is to investigate the relationship of the consumer perceptions about the branding of organizations that invest in social responsibility and the consumer behaviour regarding loyalty and willingness in paying a premium price. Reviewing the literature about Corporate Social Responsibility (CSR), Corporate Social Performance and Corporate Financial Performance, some questions arise: do consumers understand the efforts made by businesses regarding their social and ethical campaigns? And if so, are consumers willing to pay a higher price for the products and services resulting from these social and ethical campaigns? Are consumers loyal to these businesses?

In order to analyse the links between CSR and consumer behaviour, the authors use a structural equations model and a Focus Group. The “Nespresso” Case is analysed and included in the survey questions, since it is a very well known brand amongst Portuguese consumers.

The main conclusions of the paper are that although some of the indicators do not present excellent results, the hypotheses tested, in the structural equation model, were verified. As such, we can conclude that social responsibility policies are important in building a strong brand image and in turn lead to consumer loyalty and consequent availability to pay a higher price for the products or

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<sup>1</sup> The work reported in this paper was co-financed by FCT (PEst-OE/EME/UI4005/2011) and carried out within the research centre Centro Lusíada de Investigação e Desenvolvimento em Engenharia e Gestão Industrial (CLEGI).

services provided. Within the focus group some interesting findings arise regarding the links between CSR, brand image, loyalty and willingness in paying a premium price. There are indicators that although, CSR is considered important for building loyalty, the links regarding the willingness in paying a premium price are thin. Another finding is that communication policies don't address the consumer concerns regarding CSR.

**Key-words:** Corporate Social Responsibility; Brand Image; Brand Loyalty; Premium Price.

## Introduction

For some decades now research on the role and responsibilities of business in society has been searching for the business case for corporate social responsibility (CSR). The proliferation of studies on the relationship between corporate social performance and economic bottom line is the result of different shifts in the academic debate. On the one side, in terms of the level of analysis, research has gradually moved from a focus on the macro-social effects of CSR to organizational-level analysis of CSR effects on firm behaviour and performance. On the other, in terms of theoretical orientation, researchers have moved from explicitly normative and ethics-oriented studies to implicitly normative and performance-oriented analysis. (Castaldo *et al*, 2009)

Looking backward at the empirical research undertaken in the last few years, the business case for social responsibility and the related link between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) remain the most controversial areas in the business-in-society field (Barnett, 2007).

Though different in their approaches to CSP definition and measurement, existing studies tend to share an often unstated assumption: the stronger the firm's involvement in CSR programs and activities, the higher the economic and financial value firms will be able to obtain. However, a substantial inconsistency in the results obtained emerges, in terms of both existence and direction of the correlation between the constructs (Margolis & Walsh, 2003; Orlitzky *et al*, 2003; Salzmann, Ionescu-Somers, & Steger, 2005).

## Brand Image, Brand Loyalty and Premium Price

Businesses use the brand to create and communicate their identity and building their image in the consumers' perspective. The brand image of a successful brand is a valuable business asset because consumers identify more easily, products and services through the respective brands, than otherwise.

Another important aspect of branding is that, they provide the basis to positioning and differentiation strategies.

There are different points of view and different definitions of brand image. These differences reside at the abstract level in which the image is created in the consumer mind. Furthermore, there are also different theories for the construction of the brand image. Some of these theories include associations with the product (Keller, 1998), while others take in consideration associations related to the business (Biel, 1993), or the country of origin, or the user image (Aaker, 1996).

Initially it was Levy (1959) who conceptualised the concept of brand image. He suggests that products have social and psychological attributes and, as such, consumers develop emotional connections with the brands. For Plummer (1985), the image process formation initiates through the gathering of intrinsic and extrinsic attributes, benefits and consequences that are associated with the brand. According to Faircloth *et al* (2001), the brand image is a holistic perspective built by all the associations made with the brand.

Following this perspective, Ballantyne *et al* (2006), define brand image as the consumers' perception about the brand. As such, it will guide a future development of a possible bond between consumers and organisations that have its highest expression through consumer loyalty, and the willingness of the consumer in paying a premium price.

The most complete definition of consumer loyalty is given by Jacoby e Chestnut (1978) that sustain that brand loyalty represents the non random repetition of the buying behaviour of the same brand or group of brands, from an individual with buying decision.

Price premium has been studied by several authors, namely, Holbrook (1992), Kamakura and Russell (1993), Park and Srinivasan (1994), Netemeyer *et al* (2004). One may consider that the availability of a consumer to pay a price premium is defined by the amount that he is willing to pay for his favourite brand when compared with a brandless similar product. For Aaker (1996), premium price is a strong indicator of brand loyalty. For Louro (2000), price premium is a basic criterion of brand loyalty and indicates how much the buyer is willing to pay for the brand, when compared with other similar brands.

## **The Nespresso Case Study<sup>2</sup>**

"We believe that the true test of a business is whether it creates value for society over the long term" (Peter Brabeck-Letmathe, Chairman and CEO, Nestlé)

Nespresso is a very well known brand in Portugal. Nespresso's products are positioned on the high-end of the coffee market, with a patented coffee-capsule technology, associated machinery and coffee capsules.

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<sup>2</sup> Information described in this section was collected from Nestlé Corporate Site

Ecolaboration™, launched in June 2009, is the Nespresso platform for sustainable innovation, and represents their effort for creating value throughout the value chain. Through Ecolaboration™, Nespresso has consolidated all its sustainability efforts in coffee sourcing, capsule recycling and energy-efficient machines into one concerted programme, and committed itself to meet three targets by 2013:

- To source 80% of its coffee from its AAA Sustainable Quality™ Program and Rainforest Alliance Certified™ farms;
- To put systems in place to triple its capacity to recycle used capsules to 75%;
- To reduce the carbon footprint required to produce a cup of Nespresso by 20%.

With an average annual growth rate of 30% since 2000 Nespresso is the fastest-growing “billionaire brand” of the Nestlé Group. It also has an established track record of sustainability, establishing the Nespresso AAA Sustainable Quality™ Program in 2003 with Rainforest Alliance, through which only the highest-quality beans are sourced and where farmers are paid a premium. In 2009, almost 50% of the total green coffee beans Nespresso purchased came from its AAA Sustainable Quality™ Program, and Nespresso has committed to increase this to 80% by 2013.

## Model Hypotheses

The structural equations model proposed establishes the relationship between Social Responsibility practices with the constructs of brand image, loyalty and consumer willingness to pay a higher price for a product or service from a social responsible organisation. The organisation selected for this study was Nespresso. Therefore, the authors raise three research hypotheses:

*H<sub>1</sub>: The social responsibility policies have a positive direct impact on the brand image of Nespresso ( $\gamma_{11} > 0$ ).*

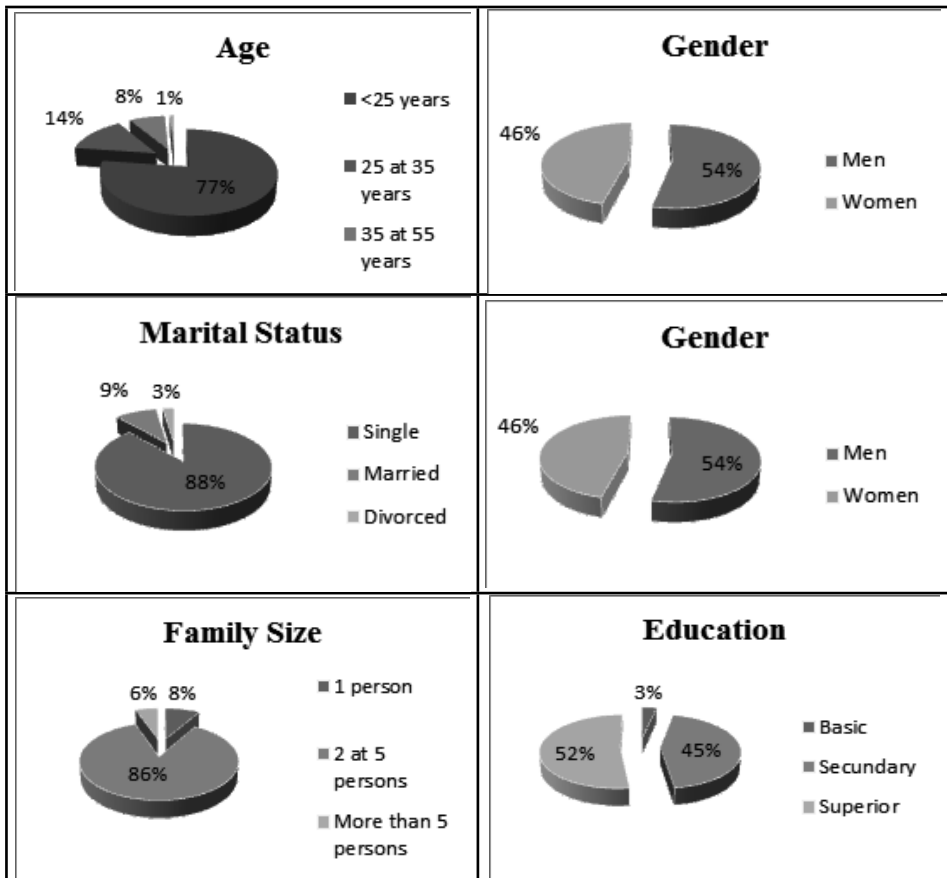
*H<sub>2</sub>: A good brand image from Nespresso helps to increase consumer loyalty ( $\beta_{11} > 0$ ).*

*H<sub>3</sub>: A good brand image from Nespresso will increase the consumer willingness to pay a price premium ( $\beta_{21} > 0$ ).*

Data collection for the model estimation was done through a consumer survey using the scales of social responsibility of Roberts (1996), scales of loyalty from Yoo and Donthu (2001), scales of price premium from Chauduri and Halbrook (2001) and scales of brand image from Netemeyer, *et al* (2004).

## Sample Characterization

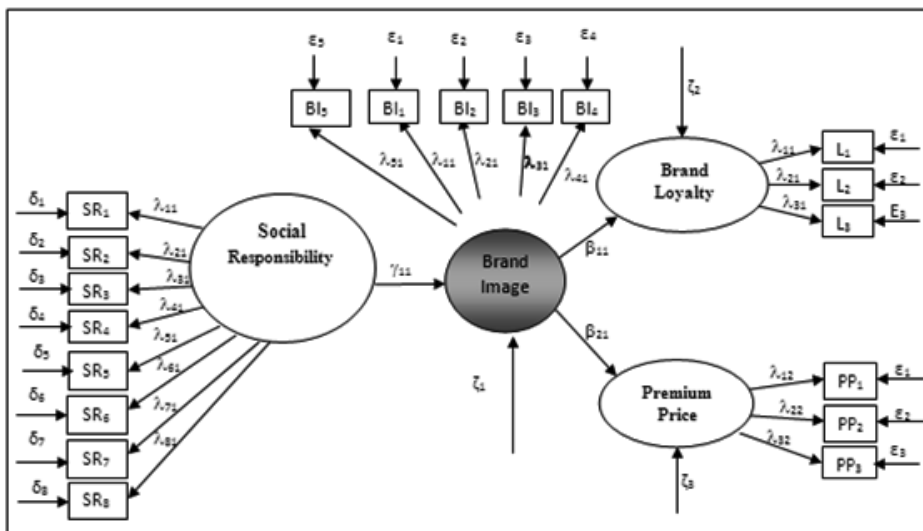
242 valid surveys were collected. The sample comprised 46% women and 54% men, ages varied between 19 and 72 years old, the majority of people that answered the survey were single (88%), with a net income between 1001 and 2000 Euros monthly per family (47%). The number of people per family was in the majority (86%) between 2 to 5 people.



### Model Estimation

The model was estimated using the covariance matrix. The statistical software program used was the STATISTICA 6.1. which allowed to calculate the variance and covariance (data) matrices and the estimation of the structural model. The estimation is undertaken by the method of maximum likelihood, since the objective is to develop and test the theory of brand image of social

responsible organisations and behaviours of loyalty and willingness to pay a higher price.



The analysis of scales reliability allowed to obtain good indicators for the Cronbach Alpha coefficient. Thus, for Social Responsibility (8 items) we obtained an alpha equal to 0,919, for brand image (5 items) we obtained an alpha of 0,864, for brand loyalty (3 itens) we obtained an alpha of 0,637 and finally for premium price (3 items) we obtained an alpha of 0,812. The chosen indicators to analyse the goodness of the adjustment are the ones suggested by Hair *et al* (2006) as the absolute indicators, Chi-square standardized, RMSEA (*Root Mean Square Error of Approximation*) e GFI (*Goodness-of-Fit*). The Chi-square standardized presents acceptable values when these are comprised between 1 and 3 (Hair, *et al*, 2006). We use RMSEA (*Root Mean Square Error of Approximation*) instead of RMSSR (*Root Mean Square Residual*) because the estimated models are based on the covariance data matrix. This indicator must be comprised between values from 0,05 (good fitness) and 0,08 (acceptable fitness). The GFI (*Goodness-of-Fit*) is an index of goodness of the adjustment that represents the total fitness levels, without correction in relation to degrees of freedom. High values of this indicator show good fitness, although there are not established minimum acceptable levels.

Hypotheses	Parameter	Estimation	p-Value	Conclusion
Social Responsibility ® Brand Image (+)	$\gamma_{11}$	0,341	0,000	Validated
Brand Image ® Brand Loyalty (+)	$\beta_{21}$	0,543	0,000	Validated
Brand Image ® Premium Price (+)	$\beta_{31}$	0,637	0,000	Validated
Goodness of the Adjustment				
$\chi^2$ Standardized	2,2			
RMSEA	0,076			
GFI	0,898			
AGFI	0,897			

Although some of the indicators do not present excellent results, the hypotheses tested were verified. As such, we can conclude that social responsibility policies are important in building a strong brand image and in turn lead to consumer loyalty and consequent availability to pay a higher price for the products or services provided.

### Focus Group Methodology

Focus Groups are a research technique that allows for data collection through the interaction of a group of people. This technique consists in an interview conducted to a small group of people conducted by a moderator in a non structured way. The moderator role is to motivate the group discussion regarding the research hypotheses that are subject of the study under analysis (Carson *et al* 2001, Malhotra, 2004, Vaughn *et al* 1996).

Group discussion is a methodology particularly suitable when the prior knowledge of the situations is small, the issues are sensitive and complex and if you want to take full advantage of the opportunity to explore and induce hypotheses, find out the views and attitudes of individuals and details of the issues that are being explored (Krueger, 1994, Harker, 2004). For Morgan (1988) this is an excellent method to establish the 'why' behind the 'what' from the perspectives of the participants.

For the purpose of this research the authors conducted a Focus Group of 8 people selected randomly. The objective was that the group selected was a reflection of the participants of the survey used for the structural equations model. When the surveys were distributed a question as placed in order to find out the availability of the respondents to participate in the focus group. From the answers obtained the selection was made in order to be representative of the universe. The selection is presented in the following table.



Category	Percentage	Number
Age	77% (< 25 years)	6
	14% (25 and 35 years)	1
	9% (more than 35 years)	1
Gender	54 % Male	4
	46% Female	4
Marital Status	88% Single	7
	9% Married	1
	3% Divorced	0
Family Income	21% (< €1000)	2
	47% (€1001 and €2000)	3
	20% (€2001 and €3000)	2
	12% (> €3001)	1
Family Size	86% (2 to 5)	6
	6% (> 5)	1
	8% (1)	1
Education	3% Basic	0
	45% Secondary	4
	52% Higher Education	4

In the focus group the moderator organized the discussion according to the 3 research hypotheses, namely:

H<sub>1</sub>: The social responsibility policies have a positive direct impact on the brand image of Nespresso

H<sub>2</sub>: A good brand image from Nespresso helps to increase consumer loyalty.

H<sub>3</sub>: A good brand image from Nespresso will increase the consumer willingness to pay a price premium

Within each of the 3 areas the moderator also introduced into the discussion the specific questions regarding the scales used for the model, namely the scales of social responsibility of Roberts (1996), scales of loyalty from Yoo and Donthu (2001), scales of price premium from Chaudhuri e Halbrook (2001) and scales of brand image from Netemeyer, *et al* (2004).

The following table presents the results of the focus group according to each of the research hypotheses.

Research Hypotheses	Focus Group Findings
<p>H<sub>1</sub>: The social responsibility policies have a positive direct impact on the brand image of Nespresso</p>	<p>Most of the participants on the focus group considered that social responsibility policies have a positive impact on the brand image of any organization. Nevertheless, it was considered a finding of the group that not always consumers understand that an organization does CSR.</p> <p>There was also a discussion on what is CSR, and if organisations actually do it. Or if is only the result of marketing efforts.</p> <p>The main conclusion is that if consumers perceive an organization as a social responsible one, then, that fact will have a positive direct impact on its brand image.</p> <p>Regarding Nespresso, there was not a consensus regarding this aspect.</p>
<p>H<sub>2</sub>: A good brand image from Nespresso helps to increase consumer loyalty.</p>	<p>Regarding brand image there was a consensus of the group that helps to increase consumer loyalty, and that this is clearly the case of Nespresso. Again, most of the participants did not agree if Nespresso has an image of having social responsible practices.</p>
<p>H<sub>3</sub>: A good brand image from Nespresso will increase the consumer willingness to pay a price premium.</p>	<p>This was the issue that raised the most discussion. Does a good reputation translated in the brand image regarding social responsibility practices is sufficient for increasing the consumer willingness in paying a premium price?</p> <p>Some of the participants argued that depending on the economic situation that could be true, but when enduring difficult economic periods most of the consumers refrain their shopping attitudes and are more price sensitive.</p> <p>It was also mentioned again that it is crucial that the message comes across to consumers, and that they understand very well what are the policies followed by the organizations.</p>

## Conclusions

The main conclusions of the paper are that although some of the indicators do not present excellent results, the hypotheses tested, in the structural equation model, were verified.

These results were then validated using a focus group methodology. Within the focus group some interesting findings arose regarding the links between CSR, brand image, loyalty and willingness in paying a premium price. There are indicators that although, CSR is considered important for building loyalty, the links regarding the willingness in paying a premium price are thin. Another finding is that communication policies don't address the consumer concerns

regarding CSR, since within the group there was no consensus regarding the organisation under analysis.

As such, we can conclude that social responsibility policies are important in building a strong brand image and in turn lead to consumer loyalty and consequent availability to pay a higher price for the products or services provided, but it is crucial for organizations to have communication strategies that address these CSR policies in a way that promotes consumers' identification.

The authors found that further research should be conducted addressing the effectiveness of communication strategies of organizations that promote CSR.

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