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# Customers' sensitivity to different measures of corporate social responsibility in the Australian banking sector

Alan Pomeroy

*University of Wollongong, alanp@uow.edu.au*

Sara Dolnicar

*University of Wollongong, s.dolnicar@uq.edu.au*

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# Customers' sensitivity to different measures of corporate social responsibility in the Australian banking sector

## **Abstract**

Corporate social responsibility (CSR) has received considerable research attention over the past several decades, including a growing body of work examining consumer responses to firms' socially-responsible initiatives. Much of this has been of an experimental design, with CSR narrowly focused on one or two dimensions of consumer goods. Findings from these studies suggest consumers will respond positively to firms' CSR initiatives. Prior studies do not, however, provide any indications how sensitive consumers are to a range of different kinds of CSR activities. Furthermore, no studies have so far been undertaken in the context of fairly standardized services which are offered only by a small number of competitors, such as retail banking. This setting is of particular interest in Australia where members of the banking industry are leading the development of CSR. But, given the nature of the banking category, it could be assumed that consumer sensitivity and reactivity would be significantly lower than in the area of consumer goods where brands can easily be substituted by consumers at relatively low switching cost. The aim of the present study is to contribute towards filling these two research gaps by assessing the comparative sensitivity of consumers to different CSR activities in the Australian banking industry. We report positive attitudinal and behavioural intention responses, and differing levels of domain sensitivity, across a range of CSR initiatives.

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corporate social responsibility, switching costs

## **Disciplines**

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# **Customers' Sensitivity to Different Measures of Corporate Social Responsibility in the Australian Banking Sector**

**Alan Pomeroy, University of Wollongong**  
**Sara Dolnicar, University of Wollongong**

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Corporate social responsibility (CSR) has received considerable research attention over the past several decades, including a growing body of work examining consumer responses to firms' socially-responsible initiatives. Much of this has been of an experimental design, with CSR narrowly focused on one or two dimensions of consumer goods. Findings from these studies suggest consumers will respond positively to firms' CSR initiatives.

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## **Introduction**

Corporate social responsibility (CSR), defined here as a firm's commitment "to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD 2004), has seen increased attention in the past two decades, in academic research and writing, public policy, management, and with consumers. The United Nations has focused on CSR in recent summits (e.g. the Global Compact, launched in 2000), national leaders have called for a greater social responsibility to be shouldered by business (Maignan 2001). Researchers have investigated various CSR impacts, for example, the link between CSR and financial performance (e.g. Pava and Krausz 1996). Marketplace polls (e.g. Dawkins, 2004) report the public expects business to contribute more to society than economic considerations, and will reflect this through their purchase behaviour. Despite this increased attention, the lack of empirical investigation into consumers' responses to CSR has left our understanding of the CSR-consumer relationship unclear.

The purpose of this study is to add to our understanding of the CSR-consumer relationship by investigating consumer responses to various different CSR initiatives in a high-involvement service category, characterised by a high degree of brand homogeneity, and little switching between brands - retail banking. We begin by briefly reviewing the literature on the CSR concept,

consumer behaviour in the retail banking market, and consumer response to CSR. We then describe the method used here and discuss the results of our study before presenting the limitations of our research and suggesting future research directions.

### **Prior Research**

Much of what we know about consumer attitudes towards CSR has come from industry surveys. MORI, (2001) reports 70 percent of Europeans say that a company's commitment to CSR is important when buying a product, and one in five would be willing to pay more for socially and environmentally responsible products. The disadvantage of such surveys is that the questions asked are general in nature and, consequently, the validity of results is questionable.

Extant empirical research into consumers' CSR responses has often operationalised CSR as a single-issue stimulus, such as environmental stance (e.g. Osterhus, 1997), fair trade products (e.g. Pelsmacker, Driesen, and Rayp, 2003), or social labelling (e.g. Dickson, 2001). An attitude-behaviour gap is often reported in empirical studies (e.g. Dickson 2001), but CSR has generally been found to result in a favourable consumer response in a number of experimental research designs, involving various manipulations of CSR (Auger et al. 2003; Brown and Dacin, 1997; Creyer and Ross, 1997; Mohr and Webb, 2005; Sen and Bhattacharya, 2001),. In these studies, however, CSR is often operationalised narrowly, on the basis of one or two ethical or socially-responsible dimensions, and has typically involved goods products rather than services. While consumers have responded favourably to the CSR information provided in such studies, it is thought that consumers "do not understand the ethical elements of the products that they purchase" (Auger *et al.*, 2003, p.299), likely due to the complexity involved (Osterhus 1997).

In a study of bank switching, Howorth, Peel and Wilson (2003) found high significant switching costs for small firms due to 'informational capture' tying customers to their bank relationship. Exacerbating this is the time needed to search out and evaluate banking alternatives, the administrative effort involved in switching, the difficulty in conveying a picture of past and current performance to a new bank alternative, the low level of administrative skills, and less efficient financial management systems. In these characteristics, small firms may be thought quite similar to individual consumers. Gondat-Larralde and Nier (2004) consider search costs and transaction costs, such as rerouting outgoing direct debits and redirecting inflowing payment, explanation for why such account holders rarely switch banks, and note that switching banks may result in an increase in asymmetric information between bank and customer.

### **Data and Methodology**

We choose a scenario approach for the present study, and manipulate the CSR conditions in a realistic way to measure the consumer response for a product category relevant to all respondents. Retail banking is the chosen category because a bank, Westpac, in 2005, was adjudged the country's leading CSR performer for the third year in succession (Corporate Responsibility Index). Another bank, ANZ, also achieved a high performance in the 2005 Index, and other category members are also currently developing their CSR programs. Given this success, and based on consumers' expressed CSR sentiment, consumers in the banking market might be expected to be aware of and respond to banks' different CSR initiatives. Consumer scepticism and cynicism towards suggestions of banks acting in socially-responsible ways may exist to moderate this impact, however, given the degree of 'bank-bashing' over highly-publicised increases in bank fees and charges and reductions in service over the past decade or so.

Using a procedure often used in studies of ethical behaviour (e.g. Fullerton et al. 1996) and CSR (e.g. Handelman and Arnold 1999; Mohr and Webb 2005), a battery of scenarios was developed depicting socially-responsible behaviour as the attitude objects for our study. The scenarios were presented as newspaper items, providing the headline and first paragraph of copy telling of the bank's CSR initiative. The eight initiatives we included are listed below (Tables 1&2). A 7-point Likert-type scale was used to assess the impact on various attitudinal and behavioural intention shifts towards the bank's actions, assumed to be their bank, described below (Table 1). The scales used represented a discriminating range of positions, from one extreme to another, and allowed for reliable expression of non-committal positions (Fullerton et al. 1996).

We used an Australian permission-based internet panel to conduct the study. The panel is set up in a way to be representative of Australia's population based on ABS statistics. Assuming a 40 percent response rate 1000 randomly drawn panel members were invited to participate in the study. The online interface was closed as soon as the required number of responses was achieved. The final sample consists of 415 respondents.

### Results and Discussion

For the following discussion of respondents' results we consider all positive reactions as expressed by respondents to form a general picture of sensitivity (Table 1). Results are shown for two attitudinal responses, "feel more positive towards the bank" and "proud of the bank", and three behavioural intention responses, "would use more of the bank's products," "would stay with the bank," and "would speak positively about the bank."

**Table 1: Positive Responses to Scenarios (in percent)**

	Feel more positive	Proud of the bank	Use more products	Stay with bank	Speak positively about bank
Bank to Open New Branches and Add Staff	51	56	51	54	55
Bank Defends Customers Privacy	51	50	47	50	51
Bank Employees Most Happy in Job	49	51	47	51	51
Bank Tops Social Responsibility Ranking	46	52	46	51	50
Banks New CEO Agrees to Cut Pay	48	50	47	49	48
Bank Praised for Good Environmental Performance	47	47	45	46	46
Bank Commits 1% of pre-tax Profit to Comm. Programs	44	47	45	46	46
Bank launches Indigenous Scholarship Program	41	43	43	42	45

From Table 1, opening new branches and adding employees elicits the most positive responses among all scenarios. Given banks' cost-reduction strategy of reducing branch networks in recent years, and inducing customers to conduct their banking via alternative means, such as the internet, the strong support for this initiative may also reflect consumer delight with the thought of higher service levels. As customer privacy affects the individual directly the high response to this initiative might be expected. The relative importance of such issues that have a more personal impact on consumers has received support in the managerial ethics literature. Whalen, Pitts, and Wong (1991), for example, found consumers' personal well-being may outweigh consideration of broader social impacts of unethical behaviour. Our findings indicate this may also be the case for ethical behaviour as well. The importance of the bank's employees being

judged the happiest on a national, industry-wide index also has the potential to directly affect customers, reflected in Schneider and Bowen's (1993) finding that high perceived employee satisfaction leads to customer perceptions of service quality.

The bank's recognition as the leading CSR performer for the third successive year falls into the middle of these results, perhaps reflecting consumers' global understanding of the CSR term. The bank's CEO agreeing to take a 70 percent pay cut ranked fifth, ahead of the environment and support for community programs, suggesting the consumers feel quite strongly about executive remuneration issues. That the environment scored down our list may be due to the impact of environmental legislation reducing this issue's controversy in recent decades (King and Mackinnon, 2002).

The lack of support for one percent of pre-tax profit being diverted to community programs may reflect public criticism of firms diverting profits away from shareholders and/or the erosion of service levels, but such attributions were beyond the focus of this study. The establishment of scholarship programs for indigenous students consistently scored lowest. This may be explained by Bhattacharya and Sen's (2004, p.15) findings that firm-consumer relationships will be stronger when consumers "perceive a high fit between the company and the cause, and have a personal connection to the cause represented by the company's CSR initiative." Sen and Bhattacharya (2001) show that consumers' evaluations of a firm's CSR activities are mediated by their perceptions of self-company congruence and moderated by their support for the specific CSR domain.

Upon reviewers' request, we provide an analysis of mean values in Table 2 below<sup>1</sup>.

**Table 2: Mean Responses to Scenarios**

		Feel negative/ positive	Feel embarrassed/ proud	Accept lower/ higher fees	Use less/ more products	Switch to another bank/stay	Speak negatively/ positively
Bank Praised for Good Env. Performance	Mean	2.4	2.4	2.8	2.3	2.4	2.4
	Std.Dev.	2.2	2.1	2.0	2.0	2.1	2.1
Bank launches Indigenous Scholarship Program	Mean	2.4	2.4	2.8	2.3	2.4	2.3
	Std.Dev.	2.0	2.0	2.0	1.8	1.9	2.0
Bank Commits 1% of Profit to Comm. Programs	Mean	2.5	2.4	2.8	2.3	2.4	2.4
	Std.Dev.	2.1	2.1	2.0	1.9	2.1	2.1
Bank Defends Customers Privacy	Mean	2.5	2.4	2.7	2.3	2.3	2.3
	Std.Dev.	2.4	2.3	2.2	2.1	2.3	2.3
Banks New CEO	Mean	2.5	2.3	2.8	2.3	2.3	2.3

<sup>1</sup> Please note that the data underlying this analysis is of ordinal nature, equidistance between answer alternatives and normal distribution cannot be assumed. The results based on the comparison of means as well as the analysis of variance p-values in Table 1 should therefore be interpreted with care. For details on statistical and test-theoretical problems with treating ordinal data as metric please see Hand (1996), Siegel and Castellan (1988), Townsend and Ashby (1984), and Kampen and Swyngedouw (2000). Please note that – contrary to general practice in marketing research - Likert (1932) never intended that single items measured on a so-called “Likert scale” should be analyzed as metric, he states that the summated scale resulting from summing all responses given on an ordinal answer format across all items in a scale can be treated as metric in data analysis.

Agrees to Cut Pay	Std.Dev.	2.3	2.2	2.1	1.9	2.1	2.1
Bank Tops Social Responsibility Ranking	Mean	2.4	2.2	2.8	2.2	2.2	2.2
	Std.Dev.	2.1	2.1	2.0	1.8	2.1	2.1
Bank to Open New Branches and Add Staff	Mean	2.4	2.1	2.8	2.1	2.1	2.0
	Std.Dev.	2.3	2.2	2.0	2.0	2.2	2.1
Bank Employees Most Happy in Job	Mean	2.3	2.2	2.9	2.2	2.2	2.2
	Std.Dev.	2.0	2.0	2.0	1.9	2.1	2.1
p-value (ANOVA)		0.852	0.240	0.944	0.553	0.341	0.218

### Conclusions

Much of the investigation into consumer response to CSR initiatives has been via experimental design, with empirical work tending to focus on narrow conceptualisations of this multi-dimensional concept. This study makes a contribution to our knowledge on the CSR-consumer relationship by examining the relative influence of a range of domains in a high-involvement service context, characterised by high switching costs and information asymmetry, extending work in this area (e.g. King and Mackinnon 2002) by testing specific expressions of more personal and vicarious CSR domains rather than merely ranking domain importance. Our findings demonstrate that a considerable proportion of consumers will look favourably upon CSR initiatives once made aware of a firm's initiatives. The sensitivity differs across different forms of CSR activities and it does not appear that the low level of competition and high switching costs in the banking market lead to low sensitivity to CSR activities. It would be interesting to conduct a follow-up study in a second product category in Australia in order to be able to test differences in sensitivities across product categories as well as extend the study to observe actual behavioural consequences.

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