2006

The limitations of consumer response to CSR: An empirical test of Smith's proposed antecedents

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Publication Details

This paper was originally published as: Pomering, A & Dolnicar, S, The limitations of consumer response to CSR: An empirical test of Smith's proposed antecedents, CD Conference Proceedings of the Australian and New Zealand Marketing Academy Conference 2006 (ANZMAC 2006), Queensland University of Technology, Gardens Point Campus, Brisbane, 4-6 December 2006.

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Keywords
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Disciplines
Business | Social and Behavioral Sciences

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Abstract

Despite an increase in consumer expectations for business to do more for society than deliver on economic conditions and many firms' increasingly adopting socially-responsible stances, marketplace behaviour highlights a gap between what consumers report they expect from firms and what they are prepared to reward. In an effort to rationalise this gap, Smith (2000) has proposed three limits on consumers' ability to respond to firms' socially-responsible practices, or corporate social responsibility (CSR). Based on a study in Australia's retail banking sector, a high-contact service context, this paper empirically tests Smith's three proposed limits to consumers' CSR response. Key findings include a low level of general awareness of banks' CSR activities, despite high levels of social issue concern, and a low level of willingness to include CSR dimensions in bank purchase decisions.

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Introduction

Consumers are reporting an increased expectation that business contributes more to society (e.g. Dawkins, 2004), and companies are paying more attention to the social externalities of their operations, embracing *corporate social responsibility*. The direction firms' CSR will take will in part depend on market responses to their initiatives, hence the need to understand the consumer-CSR response. Corporate social responsibility (CSR) may be defined as "a company's commitment to minimizing or eliminating any harmful effects and maximizing its long-run beneficial impact on society" (Mohr, Webb, and Harris, 2001, p.47). The articulation of CSR initiatives used in this study is drawn from the activities of Australia's 'big four' banks, as reported on their respective websites.

Smith (2000, p.26) has proposed three limits to the potential for consumers' purchase behaviour to respond to CSR, and hence influence the shape and directions of firms' socially-responsible initiatives: (1) consumers must be aware of firms' CSR practices; (2) consumers must be concerned about the firm's particular CSR practices and willing to consider these activities in their purchase decisions; and (3) once in the market for the product category, consumers must be able to easily choose a socially-responsible competitor. This paper tests these proposed limits through an empirical study of consumer behaviour in the high-involvement, high-contact service context of retail banking.

The paper will first review prior research into the above three antecedents of Smith's proposed limits to consumers' ability to respond to firms' CSR initiatives. We will then review the data and method used in this study, before reviewing our results and concluding with a discussion of our limitations and recommendations for future research.

Prior Research

Consumer concern for social issues has been expressed in various marketplace polls; 86 percent of Americans, price and quality being similar, are likely to switch to companies supporting social issues (Cone Inc. 2004), and 38 percent of the UK public say it is very important that a company shows a high degree of CSR when they are deciding to purchase (Dawkins, 2004). The search for a consumer-CSR link has attracted considerable recent research attention. Results of experimental designs indicate consumers generally support CSR (e.g. Auger *et al*., 2003; Brown and Dacin, 1997; Creyer and Ross, 1997; Mohr and Webb, 2005; Sen and Bhattacharya, 2001). But in a study of consumers' use of *no sweat* labelling, Dickson (2001) found only a small percentage of consumers would be influenced by such labelling, in spite of strong support reported over the social issue.

Awareness is key to Smith's propositions. Extant research into the consumer- CSR link has often either assumed consumers' awareness of the firm's CSR activities or created it artificially under experimental design conditions (Maignan, 2001). Providing information about a product's socially-responsible features increases that feature's impact on likely purchase intention (Auger et al. 2003; Brown and Dacin1997; Mohr and Webb 2005). Mohr and Webb (2005, p.142) note that consumers need information about a firm's CSR activities "to differentiate sound CSR programs from those that simply pay lip service to social responsibility." Several researchers argue, however, that consumers' general awareness of firms CSR activities is very low (Auger *et al.,* 2003; Bhattacharya and Sen, 2004).

Smith's second proposition is that consumers must be sufficiently involved in the CSR decision; people must be sufficiently motivated and have the capacity to "turn to more effortful, systematic forms of processing" (Eagly and Chaiken 1993, p. 674). Petty and Caccioppo (1986) found consumers do not generally engage in extensive search and cognitive processing, in line with Fiske and Taylor's (1991) *cognitive miser* theory. Carrigan and Attalla (2001) found most consumers give little thought to ethical issues in their purchase decision-making, even if fully-informed of ethical and unethical market behaviour. Roberts (1996) found almost 40 percent of consumers reported no ethical concerns.

Smith's third proposition is that consumers must easily be able to choose among competing brands. Under conditions of perfect competition, including perfect information, consumers can easily choose among brands. But in reality, consumers are rarely aware of all the market offers in a particular category. Conjecture exists over whether consumers are now more sophisticated than before, particularly since the advent of the internet (e.g. Day and Aaker, 1997; King and Mackinnon, 2002; Titus and Bradford, 1996).

Another key issue in consumers' ability to choose among brands is the personal, or non-moral costs (Schwartz, 1977), of the choice decision. Whalen, Pitts, and Wong (1991, p.292) found consumers' personal well-being overrode considerations for the wider societal impact when considering ethical behaviour.

Unlike with many consumer goods, high switching costs characterise this product category, potentially preventing consumers from switching brands, even if they would prefer to do so. Howorth, Peel and Wilson (2003) found 'informational capture' ties bank customers to the relationship, since the time needed to search out and evaluate alternatives, the administrative effort involved in switching, and the difficulty in conveying a snapshot of one's banking history and potential risk to a new bank, create switching obstacles. Gondat-Larralde and Nier (2004) consider search costs and transaction costs (such as rerouting outgoing direct debits and redirecting inflowing payments) an explanation of why current account holders rarely switch banks, potentially frustrating Smith's third condition - ease of switching.

The aim of the present study is to empirically investigate the limits on consumers' ability to respond to firms' socially-responsible practices that Smith (2000) has proposed. For this purpose, the following three hypotheses are formulated:

H1 The majority of consumers (50 percent or more) are aware of firms' CSR practices.

H2 Consumers show high levels of concern about social issues.

H3 The majority of consumers (50 percent or more) are willing to consider CSR activities in their purchase decisions.

Please note that the ability of consumers to choose alternative brands is warranted in the present study. Existing banking sector customers may incur a high level of switching costs if they choose to change banks, however, new category users are able to easily choose among bank brands. Also, a significant proportion of our respondents indicated they had changed their principal bank within the previous five years.

Data and Method

The questionnaire used in this study, in order to test Smith's proposals, was developed by considering the multi-faceted range of issues often included in a measure of banks' CSR, and several more utilitarian issues deemed relevant to the retail banking category. As such, responses were first sought to key questions covering consumers' awareness of banks' CSR issues: (1) How familiar would you say you are with your bank's social activities? (2) Are you familiar with any initiatives your bank is involved in which are aimed at improving social or environmental conditions in your community? and (3) Can you identify which bank recently announced the sponsorship of the Melbourne Commonwealth Games in an advertising campaign?

To determine individuals' levels of concern for social issues, the scale developed by Maignan (2001) was used. It includes 5 items, measured on a seven-point Likert-type scale, anchored at the poles by "strongly disagree" and "strongly agree": (1) I would pay more to buy products from a socially-responsible company; (2) I consider the ethical reputation of businesses when I shop; (3) I avoid buying products from companies that have engaged in immoral action; (4) I would pay more to buy the products of a company that shows caring for the well-being of our society; and (5) If the price and quality of two products are the same, I would buy from the firm that has a socially-responsible reputation.

To assess respondents' willingness to consider CSR in purchase decisions, two questions were analysed: (1) the stated importance of CSR activities for their bank choice, and (2) stated past influence of CSR on purchase decisions. The first of these includes support for the local community, good employee support programs, supports major national sports or arts events. The second included the social issues of support for and development of employees, minimising harm to the environment, support for state or national level sport, ethical business conduct, the financial welfare of indigenous Australians, corporate giving to charity, support for the arts, sourcing products from ethical suppliers, executive pay increases commensurate with other employees, corporate educational support for the financially disadvantaged, support for junior sport, and corporate contributions to disaster relief. These were selected as they represent a snapshot of major Australian banks' reported CSR activities.

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% 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. Respondents were qualified by their use of a banking service provider to participate in the survey.

To ascertain whether they would be likely to switch to a more socially-responsible service provider, we created a number of scenarios, read as newspaper reports, to manipulate their bank's acting in a socially-irresponsible way. We asked respondents to indicate their likely response to each scenario on a seven-point Likert-type scale anchored by "would switch to another bank," and "would stay with this bank." The CSR issues manipulated included the bank: being criticised for its environmental performance, lagging behind on CSR, closing branches and cutting staff, opting out of its indigenous student scholarship program, betraying customer privacy, increasing CEO pay by 70 percent, employees being the least happy on a cross-industry survey, and opting out of its community funding program. While the use of these scenarios does not immediately test whether consumers could or would easily choose a more socially-responsible banking provider, it does give a self-reported likelihood that they would, which, given the relationship between attitudes and behaviour (Ajzen and Fishbein, 1977), is a useful dependent variable. This likelihood may be moderated by the switching costs inherent in this product category, as discussed above, but not investigated in the study.

Results

Awareness

An analysis of the question "How familiar respondents think they are with their bank's social activities?" leads to the rejection of H1, as 48 percent state that they are not very familiar with the social activities of their bank at all, and only three percent state that they are very familiar. With respect to the second question (Are you familiar with any initiatives your bank is involved in which are aimed at improving social or environmental conditions in your community?) only seven percent stated that they were familiar with a CSR initiative of their bank. The highest level of awareness could be detected with respect to the sponsor of the recent Melbourne Commonwealth Games, with 44 percent of respondents able to name the correct bank. In sum, H1 has to be rejected in the context of the Australian banking sector, as the majority of consumers are not aware of CSR measures undertaken.

Concern

A summated score was computed over all 5 items from Maignan's (2001) scale. This summated scale can be interpreted as the level of concern for social issues for each individual. The minimum value is 0, the maximum values is 30. To assess whether H2 has to be rejected or not, the percentage of respondents with scores ranging from 0 to 15 is compared to the percentage of respondents with scores ranging from 16 to 30. The percentage of “low-concern respondents” amounts to 32, whereas more than twice as many (68 percent) have high social concern scores. H2 consequently cannot be rejected.

Willingness to Consider CSR in Purchase Decisions

When respondents were asked how important their bank's CSR activities are for their choice of this bank, more than a third of respondents (36 percent) stated that it is not important at all. Only five percent stated that it was very important. Table 1 shows the percentage of respondents who indicated that they have in the past decided to purchase a firm's product or service based on certain aspects of its CSR performance. As reference points, we have included pricing and the way consumers are treated into the list of items. As can be seen, none of the CSR aspects have had an impact on more than 10 percent of the respondents with respect to their purchase decision.

Table 1: Respondents Stating that Certain Aspects Have Influenced Past Purchase Decisions

Excellent performance in pricing of product or service	58%
Excellent performance in treatment of customers	27%
Excellent environmental performance	8%
Excellent performance in ethical marketing	7%
Excellent performance in confidentiality of customer information	7%
Excellent performance in supporting the arts, sport, education, donations to charity, or health research	6%
Excellent performance in job security for employees	4%
Excellent performance in executives not being paid excessive salary levels	3%
Excellent performance in supporting communities where the company operates overseas	2%
Excellent performance in supporting staff based on gender, race, religion, or disability	2%

In sum, H3 has to be rejected. Both indicators used to test this hypothesis do not lead to the conclusion that the willingness in the Australian population to consider CSR issues when making purchasing decisions is high.

Conclusion

The focus of our study was to investigate to what extent the conditions postulated by Smith (2000) limit the actual ability of consumers to respond to firms' socially-responsible practices. Our context for testing his proposals was a high-involvement service category, characterised by high switching costs, the Australian retail banking sector. The results of our study indicate that the level of awareness among Australians for banks' CSR activities is low, that their concern for social issues is high and that their willingness to consider CSR in purchase decisions in this category is low. These findings are not encouraging for major banks engaging in CSR in Australia as the market does not appear to reward their socially responsible initiatives, despite stated concern for such issues. CSR may not be the panacea banks hope it is in order to regain lost reputational capital and counter newer and more community-oriented banks' and credit unions' market gains.

Acknowledgements

This research has been funded by the Faculty of Commerce at the University of Wollongong through internal competitive grant funding.

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