



The CSR's influence on customer responses in Indian banking sector



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ABSTRACT

In the face of growing attention to corporate social responsibility (CSR) activities in the marketplace, this paper seeks to demonstrate how corporate social responsibility (CSR) initiatives influence customer purchase intention in context of Indian retail banking. Further, the impact of awareness as a moderating variable between CSR and purchase intention has been examined. The conclusion drawn from this study have important implications for Indian banks as they suggest that building a socially responsible image might have a favorable effect on consumer purchase intention. Findings suggest that corporate ability has a strong effect on customer purchase intention while CSR activities were found to exert influence on customer purchase intention in cases where the customer was aware of such activities being conducted. This paper contributes to existing CSR literature by offering a deeper understanding into CSR dynamics and its effect on consumer purchase intention. Further, the study tests the level of consumer awareness of CSR activities in a real market situation (not artificial or simulated) which has not been done in previous studies.

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1. Introduction

Practitioners today believe that companies are responsible to the society within which they operate and need to fulfil these social obligations. This emphasizes the concept of corporate social responsibility (CSR) which has not only been significantly discussed in literature, but also acknowledged as business practice. Many companies hire consultancies to advise them on the design, implementation and communication of CSR strategies (Dusuki, 2008). The growing attention to this topic is evident in academic literature; an increasing number of articles, books and specialized journals are dedicated to this subject. These publications cover a wide range of issues associated with CSR activities including the motivations behind companies engaging in CSR practices, return on investment, and communication and implementation of CSR practices among others. However, studies have not been able to determine the degree of returns to the firm from CSR activities (Vaaland et al., 2008).

Although some researchers report a positive consumer response towards companies engaged in CSR activities (Pomeroy and Dolnicar, 2009; Gao, 2009; Parsa et al., 2015), others have found that consumers are not interested in socially responsible practices (Vaaland et al., 2008; Carrigan and Attalla, 2001). This

inconclusiveness warrants further research on the effect of CSR activities on consumer response. Most of the studies examining consumer perception of CSR and its effect on behavioral outcomes are experimental in nature (Berens et al., 2005; Sen and Bhattacharya, 2001; Brown and Dacin, 1997); respondents were put into fictitious/simulated situations and their responses measured. In reality however, responses may vary from those that were obtained in artificial surroundings because socially responsible practices are not well known due to their complex nature (Mohr et al., 2001). Thus, it would be interesting to examine the level of consumer awareness of CSR initiatives and its subsequent effect on customer purchase intention.

A majority of the research in this context has been done in developed economies like US and UK, and there are limited studies in developing nations like India. The banking sector in India is the backbone of the economy and facilitates growth and development of industries through the supply of capital. As per the guidelines of Reserve Bank of India (RBI), banks in India should commit to social and environmental responsibility in their operations. Also, CSR has become a global phenomenon and calls for a better understanding of consumer responses in developing nations (Fatma et al., 2015). This study is an attempt to fill this void in literature by investigating CSR initiatives in the Indian banking context.

The study examines CSR activities carried out by Indian banks, as their products and services are extensively spread among the Indian population. This fact ensures that consumers will have some knowledge of corporate associations and build their opinion about the banking companies accordingly (Fatma et al., 2014). The

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banking sector is proactively engaged in CSR initiatives and has become the main investor in these activities globally (Ogrizek, 2002; Decker, 2004; Fatma and Rahman, 2014). The effect of CSR activities by banking firms on consumer behavioral outcomes makes it a worthy topic of study. This study explores the implications of CSR activities by firms on customer behavior relevant to practitioners and academics.

The objectives of this study are: (1) to understand the ways in which banks conduct CSR activities, (2) to determine consumer awareness of these initiatives, (3) to measure the effect of consumer awareness of CSR activities on consumer purchase intentions, and (4) to understand how consumers trade-off between traditional criteria and socially responsible practices. The paper is structured as follows: It starts with review of literature and further develops the hypothesis. Next, it explains the research methodology adopted for the study followed by analysis, results and discussion. The paper closes with conclusions and implications of the study.

2. Literature review

2.1. Corporate social responsibility (CSR)

CSR has been defined in literature from different perspectives – from the Friedman classical view of maximizing return to shareholders to the modern view of CSR as, “the company's status and activities with respect to its perceived societal or, at least, stakeholder obligation” (Brown and Dacin, 1997, p. 68). The term ‘CSR’ implies that companies have a responsibility towards the society in which they operate, however the term does not mean the same thing for everyone (Votaw, 1972). To some, it refers to legal responsibilities while representing ethical and philanthropic responsibility to others. The term responsibility used here is not directly related to an obligation or duty but seems to be voluntarily in action. Despite the proliferation of different definitions and the complexity surrounding the concept of CSR, many conceptualizations exist in CSR literature including those that suggest this as a social or stakeholder obligation (Maignan and Ferrell, 2000).

Carroll, 1979, 1991 offered a framework wherein he defined CSR as ‘the social responsibility of business encompasses the economic, legal, ethical and discretionary (philanthropic) expectation that society has of an organizations,’ thus contributing significantly to CSR literature. He further stated that these responsibilities are left to the choice of managers. Some of the activities are guided by the company's desire to assume a social role not mandated by law or expected from the business. Mohr et al. (2001, p. 47) further elaborated these responsibilities and defined CSR as “a company's commitment to minimizing or eliminating any harmful effects and maximizing its long run beneficial impact on society”. In this regard, CSR includes an array of actions such as behaving ethically, environmental protection and fair treatment of employees. This definition considers the direct and indirect effects of CSR activities on every stakeholder, and suggests that such activities must be managed according to stakeholder theory (Mohr and Webb, 2005).

Another widely accepted definition of CSR was given by the European Commission (2001): “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with the stakeholders on the voluntary basis”. Campbell (2007), appreciates the centrality of the stakeholder position and suggests “that companies must not knowingly do anything that could harm their stakeholders and if a corporation do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention” (p. 951).

2.2. Stakeholder view on CSR

The stakeholder concept is primary to CSR (Jamali and Mirshak, 2007). The term ‘stakeholder’ is broad in scope and is defined as “those groups and individuals who can affect, or are affected by, the achievement of an organization mission” (Freeman, 1984, p. 54). Researchers have classified stakeholders as primary or secondary, voluntarily or involuntarily and external or internal (Turker, 2009). Stakeholders, “acting either formally or informally, individually or collectively, are a key element in the firm's external environment that can positively or negatively affect the organization” (Murray and Vogel, 1997, p. 142). As per the stakeholder view, the key challenge for managers and theorists is to know how to improve the company–stakeholder relationship by delivering mutual benefits (Bhattacharya et al., 2009). These benefits may have a conflict of interest among stakeholders; a benefit may hold value for one stakeholder while another stakeholder might not consider it to be as valuable (Bhattacharya et al., 2009).

One of the most important stakeholder groups sensitive to a company's CSR activities is its customers (Bhattacharya and Sen, 2003). A survey done by Cone Corporate Citizenship study (2004) suggested that 80% of Americans were willing to support companies associated with a socially responsible cause. There are a large number of studies in extant literature suggesting that consumers reward companies for engaging in CSR initiatives (Bhattacharya and Sen, 2004; Feldman and Vasquez-Parraga, 2013). In order to better understand the outcomes of CSR activities, an understanding of stakeholder benefits is required (Bhattacharya et al., 2009). There is limited literature on the psychological mechanism that drives stakeholders' reaction to CSR activities carried out by companies (Bhattacharya et al., 2009). According to the means-end chain approach theory, consumers make purchase decisions on the basis of functional benefits related to the features of the product/service, psychological benefits related to the emotional well-being of the person and their own personal values (Bhattacharya et al., 2009). Although CSR activities may not provide any direct functional benefits, they may contribute to psychological benefits and the well-being of society.

2.3. CSR and banking industry

Socially responsible activities have received significant attention in the banking sector (Peterson and Hermans, 2004). Today, a major part of the bank's interest goes into solving social problems and community welfare programmes (Rugimbana et al., 2008). Thus, banks have become proactive investors in CSR activities (Marin et al., 2009) and are communicating and reporting these practices through multiple communication forums (Peterson and Hermans, 2004).

European Commission (2001) has suggested that CSR is a multidimensional construct and has industry specific dimensions. Compared to other sectors, banks have more visibility in society (Mandell et al., 1981) and a higher product involvement. As Thompson and Cowton (2004) suggested, banks are more likely to be influenced by negative reputation as compared to other companies and are more vulnerable to negative reactions from stakeholders. It is critically important for banks to manage their reputation in order to differentiate themselves from competitors and maintain stakeholder confidence (Flavián et al., 2005). Retail banks spend millions of dollars on CSR programs in order to strengthen their reputation (McDonald and Rundle-Thiele, 2008). The importance of building and managing a reputation in the service sector is high due to the intangible nature of the product and the need to build trust among stakeholders (Perez et al., 2013). Considering the important implications of CSR, a meaningful discussion on CSR of the banking industry would bring out the important areas of societal concerns in this sector.

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