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### Author

Rugimbana, Robert, Strachan, Glenda, Quazi, Ali, Keating, Byron

### Published

2004

### Conference Title

ANZMAC 2004 Marketing accountabilities and responsibilities- Proceedings (Published online)

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# **Examining the Applicability of Novel Model of Social Responsibility to Consumer Banking**

Robert Rugimbana & Glende Strachan,  
Griffith University

Ali Quazi & Byron Keating, University of Newcastle

## **Abstract**

*The study applies a novel two-dimensional model, in the context of an alternative philosophical perspective of corporate social responsibility (CSR), to investigate the nature of CSR as perceived by 199 retail banking consumers in rural Australia. Based on a factor and cluster analysis of the levels of contentment/discontentment of banking organisations' social responsibility as perceived by consumers, the results indicate that the model is useful in capturing the two most important philosophical positions of CSR ('the business of business is business' and 'corporate social responsibility is the business of business'). The results have important implications for banking organisations in relation to their social responsibilities to rural customers, which are highlighted in the paper.*

Keywords: Corporate social responsibility, Rural banking services, Rural community

## **Introduction**

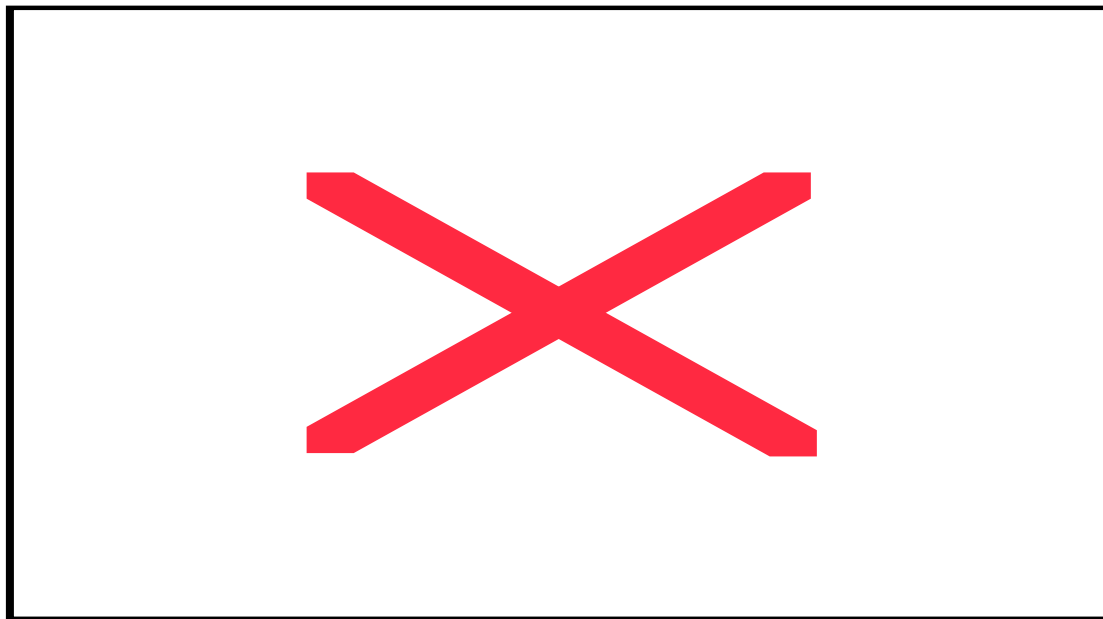
Over the past two decades, the post-deregulated terrain of Retail Banking in Australia led to an unprecedented competitive strategies. Some, such as the disproportionate bank closures (NSW Dept. Fair Trading, 1997-98) continue to raise significant corporate social responsibility (CSR) implications. The Australian Bankers Association's (ABA) attitude summed up in a submission to the Martin enquiry into bank service provision implies that customers will only benefit from a competitive banking system that operates under market forces (Argent and Rolley, 1997). This position, recasts the retail banking trade as an economic activity and therefore social responsibility is regarded as another form of 'subsidy'. A submission to the NSW premiers Department titled "CSR: the challenges and opportunities" (Positive Outcomes, 2001) noted that although CSR definitions vary, there is one constant, that is, the three components that comprise CSR: doing business responsibly, taking a leadership position in community investment and the triple bottom line accountability. The ABA submission appears to present bankers as rejecting the essential components of CSR within the ethos of competitive forces and their one and only fundamental obligation, that of delivering high net worth shareholder returns. While there has been much media coverage on the impacts on customers, staff and communities, there does not appear to be sufficient scholarly studies of the important question regarding what CSR stands for and its impacts from a consumer perspective. This article empirically explores the above issues by applying a novel model of CSR to capture consumer perspectives.

## Literature and theoretical framework

Debate on corporate social responsibility (CSR) over the last three decades has revolved around two theoretical positions. The classical theory of CSR sees a corporation as having a single dimensional entity of profit making in the short-term (Friedman, 1989; 1970; Gaski, 1985). An *alternative* school of thought maintains that businesses that are part of greater society and enjoy enormous power in terms of controlling the bulk of society's resources; have responsibilities that must go beyond the economic and regulatory imperatives (Samli, 1992; Sen, 1997, Black and Hartel, 2004). The stakeholder theory proposed by Freeman (1984) maintains that corporations have responsibility towards a broad range of stakeholders who are affected by and also influence corporate actions. Social contract theory suggests that there is an ongoing contract between society and business in terms of their reciprocal obligations, duties and responsibilities (Donaldson, 1999; Buchholz, 1986). Current scholarship in CSR suggests that businesses can simultaneously pursue these responsibilities as they represent compatible rather than conflicting business agendas (Simpson and Kohers, 2002; Murphy, 2002). The scenario of diverse philosophical positions, suggests a vacuum in the literature in terms of a theoretical model that can accommodate the diverse views on CSR. This study uses a novel theoretical model (Quazi and O'Brien, 2000), which integrates the two philosophical positions or dimensions, consistent with the emerging CSR literature

**Figure I: A two-dimensional model of corporate social responsibility.**

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Source: Quazi, and O'Brien (2000).

The model as presented in Fig. I. comprises two axes and four quadrants. The horizontal axis refers to the degree of social responsibility (Corporate Citizen perspective) and the vertical axis relates to the perceived impacts of CSR actions (cost/benefit perspectives). Since this study is about examining the consumer discontentment/contentment in regard to the social actions of the banking sector in regional Australia; the first quadrant is intended to reflect the

*integrating* view of CSR in which banks acknowledge their responsibility to society and enjoy the loyalty of their customers; the second quadrant is associated with the *socio-economic* view of CSR where banks strive for a balance between the benefits and costs of adopting social actions. In this context, social responsibility can be justified even if a manager holds a narrow view. The third quadrant is concerned with the *classical* view of CSR in which banking organizations make few or no provision beyond a narrow view of profit maximization. The fourth and final quadrant depicts the philanthropic view in which banks become altruistic organizations irrespective of costs.

### **Purpose of the study**

The purpose of this study is to analyse the applicability of a novel two-dimensional model of CSR within the consumer-banking context in Australia. The model measures the collection of attitudes held by consumers toward the particular strategies of a given business i.e. discontentment/contentment construct (Lundstrom, 1976). This principle objective and the preceding discussion have lead to the following propositions:

- P1: The *two-dimensional model* of Corporate Social Responsibility can be effectively adapted to measure the views of consumers toward the social actions of banks.
- P2: The *classical* view will be the dominant rural banking customers' view of CSR.

### **Methodology, analysis of results and major findings**

Levels of contentment/discontentment are measured using a modified version of the consumer discontentment scale (Lundstrom and Lamonth, 1976). The scale is bipolar and was previously found to be both reliable and valid. This study uses a subset of 20 items from the original pool of 82 items, with the item wording modified to reflect the objectives of this study and the retail banking services context. A single cross sectional research design was adopted, involving the use of a mail-administered questionnaire. The population comprised of retail banking customers from Merriwa Shire in New South Wales. Using convenience sampling a total of 199 usable responses were collected from 250 mail outs. Data was analysed using SPSS.

Confirmatory factor analysis was employed to assess the underlying dimensions of the contentment/discontentment scale. In order to reduce the number of factors and the extent of cross loading, an Equamax rotation was performed on the initial factor solution. The extracted factors were consistent with the *a priori* assumption, with four principle factors reflecting dimensions identified in previous operationalisations of the construct and scale. Table 1 shows the four factors with eigen values and percentage of variance explained by each of the factors as well as the total variance explained by all four factors. The reliability measure of the scales using a Cronbach alpha co-efficient for the four dimensions were Products and services (0.77), Communication strategy (0.72), Service delivery (0.64), and Environmental forces (0.75).

A *Quick Cluster* analysis was also performed to sort respondents into meaningful groups. An analysis of the results indicates that cluster 1 and cluster 4 are the two dominant clusters together representing 72 percent of the total respondents (Table 1). *F*-ratios were used to identify the leading items associated with each cluster. An examination of the final cluster

centres indicated that cluster 1 consisted of items consistent with factor 4 that represent actions concerned with an external focus by banks in response to emerging social, economic and political forces. The other dominant cluster (cluster 4) was consistent with factor 1. This cluster emphasized an internal focus on product and service strategies. Positioning the clusters relative to the two dimensional model of CSR was done via a two-step process. First, the mean centers and Euclidean distances for each respondent were examined to identify the most representative cases in each cluster. Computed mean scores for factors 1 and 4 were then obtained for each of the representative cases. These values were then compared to the average scores for all respondents in order to identify which quadrant each cluster occupied.

This analysis confirmed that cluster 4 was positioned in the first quadrant of the CSR model and is consistent with the modern view of CSR. The implication is that banks are perceived to be more sensitive to the wider view of CSR, reacting to external pressures to reduce the negative impact on society. Cluster 1 was positioned in the third quadrant, reflecting the classical view of CSR where products/services are driven by an economic imperative to the exclusion of CSR. The positions of the dominant clusters corresponding to the dominant factors have been shown in figure 2.

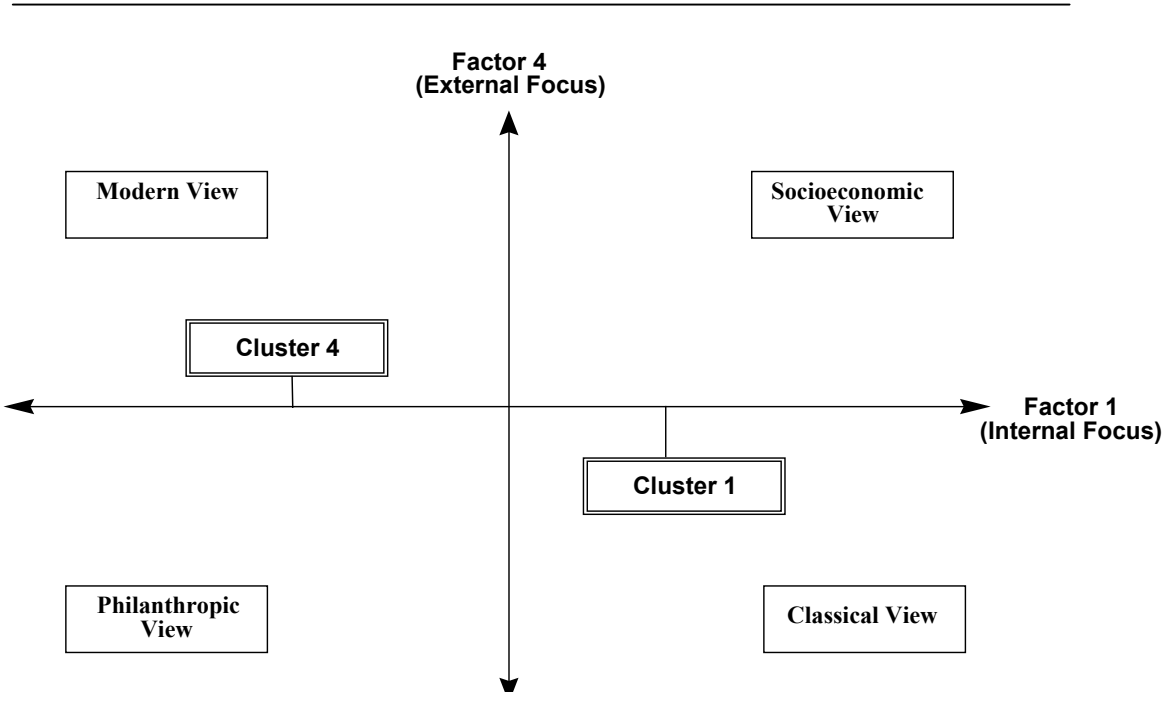
**Table 1: Factor and cluster analyses**

Factor analysis			Cluster analysis		
Factors	Eigen Values	Variance Explained	Clusters	Membership	Percentage
1. Products and services	3.53	16.1	Cluster 1	67	34
2. Communication strategy	2.29	10.4	Cluster 2	36	18
3. Service delivery	2.29	10.4	Cluster 3	19	10
4. Environmental forces	2.11	9.6	Cluster 4	77	38
<b>Total</b>		<b>46.43</b>		<b>199</b>	<b>100</b>

### **Limitations of the Study**

A number of limitations need to be noted. First, the results of the study are only generalizable across one community that provide scope for future research. Second, there are limitations of the statistical methods used. For example, factor analysis represents a rigid structure and may possess some measurement errors. The factor labels are also subjective in nature.

**Figure 2: The positions of cluster 1 and cluster 4 within the two leading factors**



**Conclusion and implications**

The analysis has highlighted the diversity of opinion on social responsibility existing in the minds of rural banking customers. Despite these differences, support was found for the adaptation of the two-dimensional model of CSR in the Australian rural banking sector. It was interesting to note, however, that despite expectations regarding the dominance of the *Classical* view of CSR, the clusters were relatively evenly split. This suggests that two dominant views exist in the minds of rural banking customers in Australia. Therefore, it can be concluded that the proposed two dimensional model of corporate social responsibility has been empirically supported by the emergence of two basic underlying dimensions in the data sampled from the Australian rural banking sector. The results corroborate the findings of previous research using the same model in a different but relevant context (Quazi and O.Brien, 2000). The results not only provide insights into dominant consumer perspectives of CSR but also point to the wider applicability of the CSR model that has been used in the study.

The findings of this study have important implications for banks with regard to their policies for rural customers. Given the diverse positions of rural customers of banking services with regard to CSR issues, banks may need to adopt the strategy of maintaining a well calculated balance between the social (retaining current services) and economic aspects (profit making) of their services to satisfy the needs of the rural customers. The dual entities of banking organizations as perceived by rural customers may require banks to give greater thought to the diversity of the portfolio of service/product offerings for rural clients in order to maximize profit in the long term.

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