

Consumer Loyalty in South Asia: A double edged sword?

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Abstract

Within the growing literature on corporate social responsibility (CSR) in developing countries, almost no attention has been paid to the link between consumer awareness about their rights, adoption of socially responsible (SR) practices by small scale individual entrepreneurs (SIEs) and how these impact on consumer loyalty in a developing country context thus leaving a significant knowledge gap. This paper builds on the work of Azmat and Samaratunge (2009) on SIEs to address this gap in literature in the context of South Asia. South Asia as a region is growing rapidly and is moving to become a new powerhouse of economic development, yet the responsible business practices of SIEs who form a significant proportion of businesses operating in this region remain severely under-researched. We draw upon the existing literature to develop a comprehensive framework which presents a set of propositions specifying the relationship between consumer awareness, socially responsible business practices adopted by SIEs and consumer loyalty. The framework offers insight into understanding consumer loyalty in the context of developing countries.

Introduction

In the wake of globalisation, increased competition, and rising consumer awareness one of the greatest assets of a company in today's market is its brand reputation and consumer loyalty. Companies worldwide are facing the challenge of building consumer loyalty to enhance consumer retention critical for the success of the businesses. To survive the competition, Corporate Social Responsibility (CSR) has emerged as a powerful marketing tool (EUCAM 2009) and a source of competitive advantage for companies who are adopting socially responsible business practices (Pearce 2003).

The story of CSR in the 21st century is 'a story of progressive business sensitization to systems and dynamics of governance beyond government, regulation beyond law, and responsiveness beyond responsibility' (Horrigan 2007: 85). The popularity of CSR has not only spread into all developed countries, CSR initiatives are also emerging in developing countries (Carrol and Shabana, 2010) and South Asia³ is no exception. The South Asian region is unique with a population of 1.5 billion growing at a rate of 1.4 percent per annum (World Development Indicators 2008). It is characterised by inequitable growth with widely diverse income levels due to the imbalanced economic development that has led to significant income disparities.

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3 The term "South Asia" refers to the southern part of Asia consisting of countries which include, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Despite its problems of confrontational politics, poverty and natural disasters, the image of South Asia in the global scenario has been growing in the 21st century. South Asia is emerging as an important region mainly due to the rapidly growing middle class population who have become consumers of all varieties of sophisticated and state of art goods (Rashid, 2005).

The practices of CSR significantly vary across companies in the region. For instance, large companies in South Asia, very few in numbers though, have created a positive image of themselves of being socially responsible; however this is not necessarily the case with small and medium sized enterprises (SMEs) and micro businesses which form a large proportion of businesses in South Asia. Azmat and Samaratunge (2009) have termed these micro-businesses as small scale individual entrepreneurs (SIEs); these businesses are mostly sole-owned or have a maximum of 5 employees. They play a vital role in employment creation, poverty reduction, and promoting sustainable economic growth (Azmat, 2008; ILO 2002), but their social responsibility practices or responsible entrepreneurship remain to be investigated (Azmat and Samaratunge 2009). This paper builds on the work of Azmat and Samaratunge (2009) on SIEs to investigate the link between consumer awareness and socially responsible business practices adopted by these micro-businesses and their impact on their consumer loyalty.

The paper is organised in the following manner: First, we define the concepts of CSR, consumer rights and consumer loyalty and then we discuss the state of responsible entrepreneurship related to SIES in the context of South Asia. We then briefly discuss the methodology adopted and then present a conceptual framework followed by a set of propositions specifying the potential link between consumer awareness and adoption of SR practices by SIEs in the context of South Asia. Finally the conclusion, and the implications of the paper are presented.

Literature Review: Defining Corporate Social Responsibility, Consumer Rights, and Consumer loyalty

CSR

The uptake of CSR varies greatly from country to country. The main divergence occurred between the OECD countries and their multinationals, which have dominated the CSR debate in the 20th century, and developing countries. Attempts to roll out the CSR debate to the latter are relatively new (International Alert 2005). It is argued that the concept of CSR is 'fairly flexible, and can accommodate different country needs in terms of priorities and themes' (International Alert 2005: 10). Therefore, there are hugely divergent interpretations of what 'social responsibility' entails in different country contexts, depending on their historical background, national culture and other particularities. In addition to the actors who advocate CSR practice, differing national social and economic priorities should also be taken into consideration.

The recent literature argues that there must be a considerable differentiation of CSR practices between large and SMEs as the latter are 'heterogeneous, having qualities, pertaining to size, resources, management style and personal relationships' which make it difficult for them to adopt large firm practices (Williamson et al, (2006: 317).

This argument is further supported by Murillo and Lozano (2006: 237) who point out that the term CSR is problematic and needs to 'be replaced with a concept closer to SMEs specific reality'. As a result, a new terminology of 'responsible' entrepreneurship has emerged in the CSR literature associated with small entrepreneurs (Fuller and Tian 2006; Chapple and Moon 2007). It usually refers to being responsible for one's effect on others and taking responsibility for helping others in normal business practices as well as in adjunct or non-core activities (Fuller and Tian 2006). Chapple and Moon (2007) view responsible entrepreneurs as those who make a significant contribution to society while doing well for themselves.

There is an agreement that CSR is 'essential for successful business operations and offers an opportunity for business to look beyond narrow economic returns and take the wider social concern into consideration (Jamali and Mirshak 2006). As the term is associated with the social responsibility of businesses the term has been a subject of intense debate and controversy over the last few decades (Jamali 2008). Consequently the concept has evolved over time and some argue that it is a vague and general rather than a concept about specific activities. In economic terms, it was initially argued that CSR mainly focuses on shareholders economic interests (Friedman 1970). Focusing on a wider community, Carroll (1999) later pointed out that the focus of CSR should include a wider group of stakeholders and proposed a number of additional dimensions of, legal, ethical and discretionary responsibilities. Given the evolution of the term in the last three decades, it has become somewhat difficult to define it as it means 'different things in different places to different people and at different times' Campbell (2007: 950). Thus, it is important to define the concept of CSR explicitly and in this paper we use the definition of Campbell (2007) to explain SR of businesses. According to Campbell (2007), first, businesses must not knowingly do anything that could harm their stakeholders-notably investors, employees, consumers, suppliers and the local community within which they operate. Second, if they do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention either voluntarily or some sought of encouragement.

Consumer Rights

Consumer rights have been acknowledged since 1962 and have been adopted by many international consumer organisations such as Consumers International (USA) and extend into eight rights: (i) safety, (ii) be informed, (iii) choose, (iv) be heard, (v) satisfaction of basic needs, (vi) redress, (vii) consumer education, and (viii) a healthy environment (Consumers International, 2006). This study defines consumer rights as the above eight basic rights, which entitle the consumer to receive goods and services on time and at acceptable quality and price. Consumers also have the right to enjoy safety, to choose a wide range of products and to live and work in a healthy environment (Consumers International 2006). For the purpose of this paper, consumer awareness is referred to as the understanding of these rights by consumers.

Consumer Loyalty

The importance of the power of consumers and their impact on the success of a business is now widely accepted (for example Pomeroy and Dolnicar, 2009; Auger et al. 2003). Consumer loyalty has been 'viewed as a combination of customers' favourable attitude and the repurchase behaviour (Ali et al, 2010:480). Consumer retention is critical for the success of any business and incorporation of responsible business practices pave the way for increased consumer retention through enhanced consumer loyalty and trust (Castaldo et al. 2008)

Recently, the nature of relationship between CSR related activities and consumer loyalty has attracted attention in the recent literature and a number of debates are under investigation regarding CSR. For instance, a number of studies have examined the effects of CSR on consumer loyalty (Maignan and Ferrell, 2001) but there is no common conclusion regarding their relationship being positive. Instead, some studies (McWilliams and Siegel 2000; Mohr et al., 2001) suggest that there is, in fact, no effect of CSR on consumer loyalty. A recent study in Pakistan (Ali et al. 2010) confirms that in a developing country context, there is no positive relationship between awareness of corporate social responsibility activities and consumer purchase intention.

Responsible entrepreneurship of SIEs in developing Countries

Studies suggest that CSR in South Asia is not a new phenomenon and CSR or variants of it have existed for some time although they have differed in the nature of the actions and agenda.

The nature of CSR in South Asia varies greatly with the size of the companies. In the South Asian context, the size of companies is a deciding factor for CSR. While large companies are far more advanced in this agenda, this is not the case with SMEs and SIEs which form the bulk of the economy in South Asian region (Azmat and Samarathunge 2009). Large companies in India namely Tata, Infosys and Birla have led the way in CSR and have embedded socially responsible business practices into their business strategy. These practices fit with their philanthropic culture and religious tradition in the country. For example in Bangladesh big companies like Pran and Grameen group of companies are paying increasing attention to CSR and are engaged in various activities to benefit the community. Sri Lanka does not have large companies of local origin compared to its neighbouring countries. However, companies like DSI (Footwear Company) and Dilmah (Tea manufacturing and processing company) have gained reputation amongst employees and the local community of being socially responsible in their business activities. Similar is the case in Pakistan where CSR activities until recently are mainly associated with large multinational companies (Ali et al, 2010).

The case of SMEs and SIEs in the region is somewhat different. SIEs constitute more than 90 percent of businesses in South Asia and play a vital role in employment creation, poverty alleviation and promoting sustainable development. In contrast to SMEs, SIEs generally are sole owned or may have up to a maximum of 5 employees, are not registered, have no brand capital, low public visibility and do not pay any taxes (Azmat and Samarathunge 2009). Table 1 below shows these unique characteristics of SIEs against SMEs and large companies. The concept of SR relating to SIEs in the developing countries is shaped by various contextual factors

including business environment, culture, religion, level of socio-economic development and both international and domestic pressures on the business practices of SIEs (Azmat and Samaratunge 2009).

A number of reasons i.e. market-oriented development approaches, reduction in welfarism, rapid urbanisation, increasing landlessness, and unemployment have been the major forces for the emerging large number of SIEs in developing countries (Baruah, 2004). These changes have forced increasing number of people to be entrepreneurs as a means to survive.

Table 1: The Main Features of SIEs

	Small individual enterprises (SIEs)	Small and medium enterprises (SMEs)	Large companies
Formal sector	-	✓	✓
Informal sector	✓	-	-
Brand visibility	-	✓	✓
Registration	-	✓	✓
Tax	-	-/✓	✓
Business form	SIEs	SMEs	MNCs
No of employees	Sole owned or up to a maximum of 5 employees	Fewer than 250 employees	More than 250 employees
Labour	Labour intensive	Mainly labour intensive	Capital intensive
Information/data	Unreliable/unavailable	Available	Available
CSR	Responsible entrepreneurship	Responsible entrepreneurship/CSR	CSR

Source: Azmat & Samaratunge (2009:439)

SIEs in developing countries are very different from their counterparts operating in developed countries. Rather than driven by challenge, inheritance, and independence (Wacks, 2003) which is the case in developed countries, SIEs in developing countries are forced to be entrepreneurs for their own survival. In most cases they come from lower social class, have little education and understandably are driven by economic motives as they struggle to survive for existence. They also are very small in size, have no public visibility and brand; these characteristics on one hand make them feel isolated, neglected and abandoned, but on the other hand also encourage them to be involved in irresponsible business practices for economic reasons. Also due to their poor education level and lack of awareness they are in most cases not aware of the importance of having a trusted relationship with the consumers (Azmat and Samaratunge, 2009) which also influences their business practices.

Methodology

In the following section, the paper establishes a conceptual framework based on the review of existing literature and comes up with number propositions to explain the

link between consumer awareness, adoption of SR practices relating to SIEs and consumer loyalty in the context of South Asian countries

Discussion: Understanding the Link between Consumer Awareness, Adoption of SR Practices and Consumer Loyalty

Consumer awareness and adoption of SR practices

It is now widely established that consumers are interested in the social behaviour of firms and the CSR profile of a firm largely influences their purchasing decisions (Casteldo, et al; 2008). Due to the increased scrutiny and pressure from the consumers companies in developed countries are considering CSR practices and this is reflected in the rise of organic products and products created according to fair trade ethical and environmental principles. Companies are also disclosing information on their CSR practices to retain their competitive edge by establishing clear ethical sourcing practices, responsible product development and marketing and being environmentally friendly. Consumer retention is critical for the success of any business as it is cost effective to retain existing consumers than capture new ones.

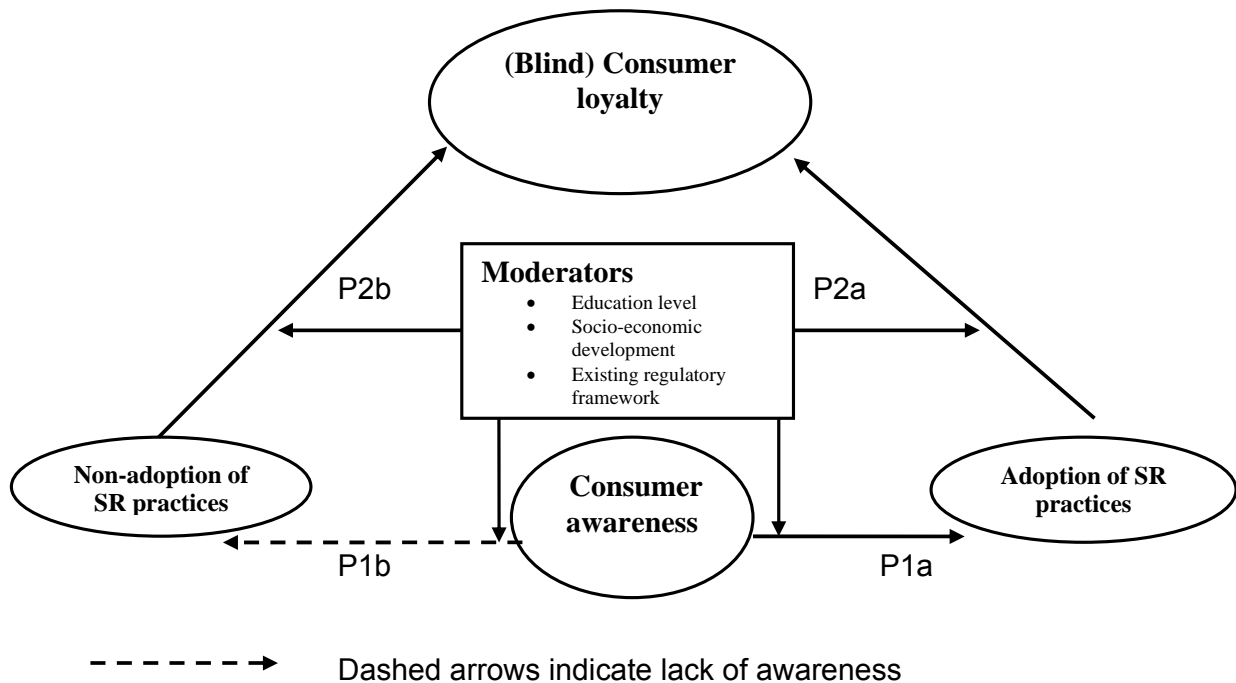


Figure1: A model explaining the link between consumer awareness, adoption of SR practices and consumer loyalty.

The international trend of increased consumer awareness forcing companies to adopt CSR practices is yet to filter into the countries of South Asia where consumer

rights are often neglected and the number of businesses adopting responsible businesses practices remain low (Azmat and Samaratunge, 2009). In these countries as Darley and Johnson (1993:37) argue, 'the marketplace has been a seller's haven where consumers have little or no protection, education, or information about the market' and after more than a decade this still remains the case. This situation can mainly be attributed to the poor economic condition of the large population who lack education and awareness about their consumer rights. Discussing the responsible entrepreneurship of SIEs in developing countries, Azmat and Samaratunge (2009) hypothesize that SIEs are less likely to behave in a socially responsible way if they experience poor economic conditions (both at national and individual level) and are exposed to a low level of awareness about the importance of consumer retention, their rights and trust in consumer – trader relationships. This is further supported by earlier work of Shi (2007, 23) who argues that responsible business practices will come more naturally in developing countries 'where economic development reaches a level to be able to afford CSR'. In sharp contrast to their counterparts in developed economies who are mostly involved in business for autonomy, independence, self-determination, flexibility of schedule, creative control, more financial security, and personal achievement (Wacks, 2003) SIEs in developing countries are mostly forced to become entrepreneurs for their own survival and face financial hardships. As a result, they are understandably more concerned with increasing their income level and are not that committed to be socially responsible, as they focus on immediate survival and short term profitability (Azmat and Samaratunge, 2009).

In developed countries companies are now increasingly focusing on providing real consumer emotional experience in addition to ensuring physical attributes of the products and services to remain competitive. For example Oswald et al (2006) argue that companies were not only generating consumer experience that was beyond physical attributes such as quality, quantity, delivery, price-product bundling, safety, security and privacy, they were increasingly focussing on providing emotional experience of meaning, value, entertainment, friendly and caring service, belongingness. In developing countries, a large proportion of consumer are poor, semi literate and are not aware of their consumer rights. Even common services relating to physical aspects of the product, i.e. quality, pricing, after sales service, refunds, consumer complaints which are taken for granted in developed countries are rarely seen to be adopted even by large businesses in urban areas. These services are totally non-existent in the case of small businesses and interestingly the consumers even do not know that these services are part of their consumer rights which they are entitled to. Similarly, discussing the situation in Nepal, Subedi (2007) argues that consumer rights are one of the most ignored rights in Nepal and this is mainly due to lack of awareness. In most cases, this is not just the case with the consumers, even the SIEs are not aware about these consumer rights and their responsibilities to provide them and in the unlikely cases where they know about it, they choose not to. This is mainly due to poor regulatory environment, lack of sanctions, appropriate penalties and the pervasive corruption which encourage them to adopt socially irresponsible practices and focus on short term benefits.

Reflecting on the situation in India Rashmi, (2003) similarly points out that many products are sold in the market without much information or misleading information about their quality, quantity and freshness. It is also common to have adulterated

food items sold in the market i.e. milk contaminated with detergent, refined oil, caustic soda or urea, mustard oil can be adulterated with argemone oil and vegetables and fruits are artificially coloured. Similar is the case in Bangladesh, where the law -, Bangladesh Pure Food Ordinance- prohibits the use of any poisonous chemicals like formalin and pesticides or intoxicated food colour in any food which are harmful for human consumption, however there are reports that sale of seasonal fruits ripened with harmful chemicals and pesticides continue in the rural markets and the authorities concerned are yet to launch any steps to deal with these irresponsible business practices (Reporter, 2009). The preceding discussion above leads to the fact that a large proportion of population in South Asian region are poor, lack education and are unaware of their rights and consequently, 'are caught in a vicious circle of food and commodity adulteration, being cheated in weighing and measuring, hoarding and artificial price-hike' (Subedi, 2007:1).

As a result of the lack of awareness of the consumers about their rights and in some cases the SIEs who also lack awareness about their responsibility and the importance of building a long term relationship with the consumers, they end up adopting irresponsible business practices rather than being socially responsible. These irresponsible practices are manifested by commodity adulteration, misleading advertisements, cheating in weighing and measuring, hoarding and artificial price-hike.

This leads to the following proposition.

P1a: Increased consumer awareness is likely to lead to increased pressure for SIEs to adopt SR practices. However the link between consumer awareness and adoption of SR practices is likely to be moderated by contextual variables particularly the individual economic condition, level of education and the existing regulatory framework enforcing sanctions.

P 1b: Lack of consumer awareness is likely to lead towards non adoption of SR practices.

Adoption of SR practices and Consumer Loyalty

Consumer loyalty has become increasingly important as it has been linked with strongly affecting profitability. It is now increasingly recognised that companies with higher consumer loyalty exhibit higher revenues, higher returns on investment, and a higher profitability (Oswald et al, 2006). Social responsibility and ethics have been shown to have a positive influence on consumer behaviour (Clarke & Bell, 1999). Companies have been using variety of communication tools which includes certification and labelling, reporting, consumer guides and marketing strategies to inform consumers of their social responsiveness in the last decade to deal with strategic imperative of gaining consumer loyalty. To remain competitive companies in addition to focussing on the physical aspects of the product, are also focussing on emotional and value aspects to endure lasting consumer loyalty (Oswald et al, 2006). In doing that the companies are focussing on building the intangibles of CSR - building trust, reputation, and good will- to be profitable and competitive. These image-enhancing decisions have the twin objectives of increasing the loyalty of existing consumers and aiding in attracting new consumers (Aharoni, 1993) In fact 'intangibles such as reputation, trust and capacity to innovate- all widely recognised

as fundamental to strong financial performance—are at the same time integral to the CSR agenda’ (Whites, 2006:1). Corporate reputation can be considered to be a valuable strategic resource that contributes to a firm’s sustainable competitive advantage (Capozzi, 2005), however it is becoming increasingly difficult to achieve. Even in developed countries, it has been reported that although companies usually use their websites to promote their CSR actions, however very few consumers read such reports (Ali et al, 2010). The developing countries present a different scenario. Due to lack of consumer awareness and limited technological advancement, even big companies do not have the advantage of promoting their CSR actions online and this becomes absolutely unimaginable when it comes to SIEs. This can be confirmed by the work of Ali et al (2010), who in their quantitative study found that consumers in cellular industry which is fastest growing sector in Pakistan, had a low level of awareness about CSR activities. They did not consider the company’s contribution towards society in their buying decisions; rather they paid more attention to pricing strategies than CSR activities of service providers. This situation is even more complicated in the case of SIEs who come from low social class, poor economic condition and low level of education and awareness. This leads to the following proposition.

P2a : Adoption of SR practices by SIEs is likely to lead toward building consumer loyalty. However the link between adoption of SR practices and consumer loyalty is likely to be moderated by contextual variables particularly the individual economic condition, level of education and the existing regulatory framework enforcing sanctions

In developing countries lack of awareness not only leads to consumers being ignorant of their rights, but also leads to a situation where consumers do not have any expectations from the businesses. This is mainly due to the fact that in most cases they are not entitled to basic consumer rights i.e. refund, physical attributes, advertising and so on. Even in developed countries according to Castaldo et al (2008), consumers do not necessarily always purchase products from companies active in CSR. Although there are frequent claims that consumers are influenced by the CSR reputation of a firm (Smith, 2003 cited in Castaldo et al, 2008) this is not confirmed by sufficient empirical research. It is argued that the correlation between a firm’s reputation and the behavioural intentions of consumers is dependent on other variables at the firm or consumer level (Castaldo et al, 2008).

Castaldo et al (2008: 1) based on their empirical evidence further suggest that a company’s reputation for CSR impacts consumer intentions in the presence of at least two conditions. These conditions include ‘(1) the products sold by that company comply with ethical and social requirements; (2) the company has an acknowledged commitment to protect consumer rights and interests’. Both of these conditions are compromised in the developing country context. The condition of complying with ethical and social requirement firstly is not important to consumers in developing countries who in sharp contrast to their counterparts in developed countries are poor and struggle for bare existence and are therefore not concerned about these requirements. Secondly the issue of complying with ethical and social requirements and being socially responsible in terms of providing quality goods and services is compromised by the SIEs who in most cases use deceptive advertising, misleading information about their products and consumers are not in a position to observe their

quality. The second condition of company's commitment to protect consumer rights and interests is also compromised to a great extent in the context where consumers lack awareness about their rights. Accordingly this leads to the following proposition

P2b : Lack of awareness in some cases leads to blind customer loyalty or in other words, in some cases consumers are likely to be loyal even when firms do not adopt SR due to lack of awareness about their rights.

Conclusion/Implications

The paper has developed a framework that provides useful insights into the link between consumer awareness, responsible business practices of SIEs and consumer loyalty- an area that has not received academic attention yet. Given the limited literature on social responsibility practices of SIEs, this paper will make a significant contribution to the literature on SIEs, their adoption of social responsibility practices and consumer awareness in the context of developing countries. It also provides important implications for MNCs to customise their operating strategies when considering South Asian countries which represent a lucrative growing market.

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