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University of Pretoria



GORDON INSTITUTE  
OF BUSINESS SCIENCE

# **Corporate social investment as a driver of customer loyalty at the bottom of the pyramid**

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfillment of the requirements for the degree of Master of Business Administration

## ABSTRACT

Companies spend substantial funds on CSI initiatives. Expenditure of such large amounts could hold benefits for companies that go beyond their regulatory compliance. This study focused specifically on how CSI impacted on consumer loyalty at the bottom of the pyramid.

The research found that CSI has no direct impact on loyalty and that consumers value the quality of service received more highly than CSI activities by companies. Even in instances where CSI awareness was low, consumers were still willing to recommend the company to others. Some of the research espoused the view that this may be because consumers experienced no direct benefit from the CSI activity. The findings also suggested that at the bottom of the pyramid consumers place a substantial emphasis on building relationships of trust and just because companies invest in CSI activities, this does not on its own lead to consumers trusting the organisation more.

The implications of these findings are that when companies try to develop a competitive advantage through CSI, they need to re-examine their CSI spend as well as re-evaluate whether individuals or communities benefit as this has implications for individuals' loyalty to the company.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation to carry out this research.

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## ACKNOWLEDGEMENTS

The last two years have been a great challenge and, reflecting back on it now, reaching this point would not have been possible without a fantastic support network. To my family and friends who stood by me and who provided unwavering support, you will never know what this has meant to me. Thank you for being my pillar and for understanding why I could not always be around. I cannot wait to reconnect with you again.

To my supervisor, Kerry Chipp, there were times when I thought this wheel of pain was too much. For your guidance, support and assistance and for sharing my wheel of pain, I will always be grateful.

To my employer, Absa, and specifically Ina Steyn, you made this process so much easier for me. You gave me the latitude that I needed to complete this degree and never once did you complain. Thank you for making this experience easier for me. Knowing that I had a supportive environment and that things were taken care of at the office gave me a tremendous sense of relief.

And finally to my study buddies at GIBS – Masha, Rashika, Sharon, Heidi, Kuben, Simon, Yashil and Nanda – I am not sure I would have reached this point without the group. For the encouragement, the laughter, the hand holding and for listening, thank you. You guys are the best!

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## **CHAPTER 1: INTRODUCTION**

### **1.1 RESEARCH TITLE**

The research is entitled, “Corporate social investment as a driver of customer loyalty at the bottom of the pyramid”.

### **1.2 RESEARCH PROBLEM**

#### **1.2.1 CORPORATE SOCIAL INVESTMENT**

We live in a world with enormous levels of deprivation, destitution and oppression (Sen, 2001). At the same time we live in a world of globalisation where freedom and economic growth are advocated and where businesses are influenced to respond to poverty and deprivation by being part of the solution. Today, the social responsibility of business must go further than simply increasing profits, the main aim of business as suggested by Friedman in 1970.

As a result of this, more and more companies globally are embarking on activities that fall under the umbrella of corporate social responsibility (CSR). “CSR is a well-known expression for what, in the past, has been a collection of different and yet related terms: corporate philanthropy, corporate citizenship, business ethics, stakeholding, community involvement, corporate responsibility, socially responsible investment,



sustainability, triple-bottom line, corporate accountability and corporate social performance” (Silberhorn and Warren, 2007, p. 352)

The focus of this research is on corporate social investment which is one component of CSR. In discussing CSI, the broader views on CSR are also considered. The concept of CSR has an established and illustrious history. According to Carroll (1979), CSR activities are performed by companies not only for the sake of the company, but also for society at large. Porter and Kramer (2006) alluded to the fact that CSR occurs for four reasons, namely moral obligation, sustainability, license to operate and reputation.

With this rather broad and encompassing view, Porter and Kramer (2006) also put forward the view that CSR can be a source of opportunity, innovation and competitiveness. The emergence and growth of CSR and, in turn, CSI, is therefore understandable. In addition to Porter and Kramer’s view, *The Economist* (2008) attributed the boom of the late 1990s and early 2000s to the fact that companies have to work harder to protect their reputation and, by extension, the environment in which they operate. Hence companies spend more on CSI activities.

In the South African context, CSI has a relatively short history during which it has evolved from informal voluntary schemes to formal contributions to social change (The CSI Handbook, 2007). CSI in this context refers to a company’s contribution to community upliftment and socio-economic development. Considering South Africa’s history and the legacy of poverty, inequality and inadequate skills, CSI for South

African businesses is seen as an imperative (The Sustainable Business Handbook, 2008).

As a result of this and in support of the transformation agenda referred to in the Broad-Based Black Economic Empowerment (BBBEE) Act 53 of 2003, in February 2007 the Department of Trade and Industry gazetted black economic empowerment (BEE) Codes of Good Practice and a BEE scorecard (Department of Trade and Industry, 2007). Included in the scorecard was the concept of CSI which introduced a new set of concerns and priorities for companies. This, combined with various industry charters (with varying emphasis on CSI), formed the backbone of the transformation agenda. In addition, other mechanisms are also in play to promote CSI such as the King Report, King II, the JSE Socially Responsible Investment Index and now King III.

Tracking CSI over the last ten years in South Africa shows that CSI expenditure has grown exponentially since 1998 – from R1.54 billion in 1998 to R3.2 billion in 2007. Relative to inflation, CSI spend has, in most instances, outstripped inflation (The CSI Handbook, 2007).

Such substantial CSI spend has resulted in companies building stable communities around company operations that can add value to the business, nurture future consumers at the bottom of the pyramid, grow the pool of skills for the economic sector, build stronger supply chains and improve their corporate reputation (The Sustainable Business Handbook, 2008) .

The aim of this research is to explore whether CSI leads to loyalty with a specific focus on the financial sector. In the financial sector a Financial Sector Charter (FSC) was gazetted. In terms of the FSC scorecard, BBBEE is measured via seven components. This is represented in Table 1.1 below.

**Table 1.1: FSC scorecard**

<b>Element</b>	<b>Points</b>
<b>Human Resource Development</b>	<b>20</b>
Employment equity	15
Skills development	5
<b>Procurement and enterprise development</b>	<b>15</b>
<b>Access to financial services</b>	<b>18</b>
<b>Empowerment financing</b>	<b>22</b>
<b>Ownership and control</b>	<b>22</b>
Ownership	14
Control	8
<b>Corporate social investment</b>	<b>3</b>
<b>TOTAL</b>	<b>100</b>

*Source: Adapted from Government Gazette No. 29610, 9 February 2007*

For financial sector institutes that do undertake CSI activities, they are able to earn a maximum of three points on the FSC scorecard. This has certainly influenced the spending of many companies in the financial sector. In fact, the spending in the financial sector is the third highest spend after state-owned enterprises, and mining and construction. In focusing on the banking industry specifically, Table 1.2 considers the spending by the top four banks in the industry during 2008.

**Table 1.2: CSI expenditure**

<b>Bank</b>	<b>Spend (Rm)</b>
Absa	R 131.8
FNB	R 32.8
Nedbank	R 53.5
Standard Bank	R 114

*Source:* Adapted from [www.absa.co.za](http://www.absa.co.za), [www.fnb.co.za](http://www.fnb.co.za), [www.nedbank.co.za](http://www.nedbank.co.za) and [www.standardbank.co.za](http://www.standardbank.co.za)

### **1.2.2 BOTTOM OF THE PYRAMID**

The key message conveyed by BoP thinking is that companies can “seek their fortunes and bring prosperity to the aspiring poor” (Prahalad and Hart, 2002, p. 1). Prahalad and Hart’s article entitled, “The fortune at the bottom of the pyramid” (2002), facilitated a fundamental shift in thinking about the potential that lies at the low end of the market. The banking charter fits well with this viewpoint.

On the surface BoP and CSI seem to be completely different concepts, yet based on the literature review they share two important commonalities, namely creating or increasing profits for the company (i.e. adding economic value), and upliftment and sustainable development of the poor.

Considering the views of Friedman (1970) who espoused that the social responsibility of business is simply to make profits, the research thus far has shown that by undertaking CSI activities, companies are likely to fulfil both their profit motive and simultaneously ensure that they meet their legal, philanthropic, economic and ethical responsibilities.

### **1.3 SIGNIFICANCE OF THE STUDY**

According to Bhattacharya and Sen (2004), several marketing studies have found that social responsibility programmes have a significant influence on customer-related outcomes such as increased profits, customer loyalty, trust, positive brand attitude and combating negative publicity. The literature review undertaken in Chapter 2 does show some evidence that customer loyalty holds benefits for companies and that there is a relationship between CSI and loyalty, but the positive impact of CSI on loyalty in the South African banking sector specifically at the bottom of the pyramid remains,

to the best of the author's knowledge, largely unexplored from an academic perspective.

#### **1.4 RESEARCH OBJECTIVES**

This research aims to determine whether companies' CSI activities lead to consumers believing that the company has a better reputation and hence trust the company more. In addition, as a result of the reputation of the company and a relationship of trust, this research aims to investigate whether this then leads to loyalty which can be observed by consumers recommending the company to others, continuing to do business with the company, and not considering offers made by other organisations.

#### **1.5 SCOPE OF THE RESEARCH**

The scope of this research is limited to exploring the relationship between CSI and loyalty in relation to banking consumers at the bottom of the pyramid.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

The three key elements of the study are corporate social investment, loyalty and the bottom of the pyramid. The literature review therefore focuses on these concepts and explores their relevance in the context of the banking sector. The concepts of relationship marketing and service quality are also discussed due to their relevance to the bottom of the pyramid.

### **2.2 CORPORATE SOCIAL INVESTMENT**

#### **2.2.1 DEFINITIONS OF CSR AND CSI**

No universal definition for CSR exists (Pirsch, Gupta and Grau, 2006; World Business Council for Sustainable Development, 1999). According to the WBCSD's definition (1999, p. 3), "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." This view was expanded by The European Union who claimed that CSR is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis" (European Commission, 2002, p. 3).

To complicate the issue further, some authors have also investigated CSR under different labels such as corporate social responsiveness (Frederick, 1978; Strand, 1983); corporate social performance (Stanwick and Stanwick, 1998; Wood, 1991) and corporate citizenship (Maignan, Ferrell and Hult, 1999).

In addition, other views suggested that CSI is just one component of CSR. According to The CSI Handbook (2007), CSR is a company's internal value system for conducting business and regulating operations whereas CSI is a company's contributions to people, organisations or communities that are external to the company. They suggested that CSI should support a business's CSR agenda.

In the South African context, CSI is defined as "projects aimed at primarily black groups, communities and individuals that have a strong developmental approach and contribute towards transformation (*Government Gazette*, 9 February 2007, no. 29610, p. 16). This is the legal definition contained in the BBBEE Act.

As proposed by the Financial Sector Charter, CSI initiatives in the financial sector should consist of, but are not limited to, education; training; development programmes; environmental projects; job creation; arts and culture; and health and sport (*Government Gazette*, 9 February 2007, no. 29610).



In looking at CSI this paper adopted a similar approach to Silberhorn and Warren (2007). According to Silberhorn and Warren (2007), the lack of consensus on a definition of CSR seriously hampers theoretical development as well as research. They therefore suggested that reliance be placed on the company's activities as published on its website. Hence this study focused on the activities covered by the four leading banks in South Africa, namely Absa, First National Bank, Nedbank and Standard Bank, as well as the definition of CSI as put forward by the Financial Sector Charter. These activities of the leading banks are reflected in Appendix A.

### **2.2.2 CSI MOTIVATION – WHY DO COMPANIES ENGAGE IN CSI?**

Carroll (1991) recognised that businesses are driven by a profit motive and hence the economic motive of businesses is seen to underpin the other three social obligations, namely those of legal, ethical and philanthropic activities. The legal obligations referred to by Carroll (1991) are those responsibilities that relate to complying with government laws and regulations. Ethical considerations are those standards, norms and expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just and respectful to stakeholders' moral rights (McDonald and Rundle-Thiele, 2008). Finally, the philanthropic component referred to by Carroll (1991) refers to business being a good corporate citizen that participates in and assists the local community, provides assistance to private and public educational institutions, and ultimately enhances a community's quality of life.

Campbell, Moore and Metzger (2002) shared a similar view to Carroll (1991) and suggested that companies participate in CSI for self-interested economic motives but at the same time they also emphasised the need for companies to fulfil regulatory compliance (Marin and Ruiz, 2007) while portraying a socially responsible and altruistic image (Moir and Taffler, 2004).

Considering the comments by Friedman (1970) that the social responsibility of business is simply to increase profits, the literature suggested that social responsibility goes beyond this but that the ultimate outcome may have the economic benefits to which Friedman referred. As to which is the strongest driver of CSI, this is likely to differ between companies. The next section, which considers the outcomes of CSI, may provide some clues as to why companies engage in CSI.

### **2.2.3 OUTCOMES OF CSI**

Besides CSI's ethical, philanthropic and legal elements, it also has an economic motive as suggested by Carroll (1991). Economic benefits relate to, amongst other things, an increase in competitiveness, which holds indirect economic rewards, as well as improved stock market performance (Branco and Rodrigues, 2008; Drumwright, 1994; Klein and Dawar, 2004; Porter and Kramer, 2006; Waddock and Smith, 2000).

CSI also has the ability to influence loyalty (Maignan *et al.*, 1999; Sureshchander, Rajendran and Anantharaman, 2002). In addition, it holds benefits related to increased awareness of the company including a strengthened commitment towards a brand

(Brown and Dacin, 1997), improved corporate reputation (Fombrun and Shanley, 1990), as well as improved evaluations of the product attributes (Creyer and Ross, 1997).

Sen, Bhattacharya and Korschun (2006, p. 164 ) in determining whether a consumer's awareness of philanthropic activities led to a belief that the company is more socially responsible, found that "consumers who were aware of the CSR initiative had more positive company-related associations, displayed greater organisational identification with the company and indicated a greater intent to purchase products". This was confirmed by Lichtenstein, Drumwright and Braig (2004. Pfau, Haigh, Sims and Wigley (2008) also examined the influence of CSR campaigns on public opinion. The study confirmed that CSR campaigns had the ability to enhance people's perceptions of the image, reputation and credibility of corporate sponsors. This was confirmed by Branco and Rodriques (2008).

Contrary to the views of Sureschander *et al.* (2002) and Maignan *et al.* (1999), De los Salmones, Crespo and Del Bosque (2005) found that although CSR has an effect on loyalty, it only acts indirectly via the overall valuation the user makes of the service received. The overall valuation of service was therefore found to be an important factor when explaining users' behaviour and attitude towards a brand. De Los Salmones *et al* (2005) could find no direct relationship between loyalty and CSR.

In addition, Pomeroy and Dolnicar (2006, in McDonald and Rundle-Thiele, 2008) suggested that further research is necessary to understand consumer responses towards CSI because retail banking customers' personal well-being may outweigh their consideration of broader social impacts and hence consumers would want things that benefit them directly, rather than the community. Pomeroy and Dolnicar's research focused on retail banking customers and a more detailed consideration of banking and CSI is discussed in the next section. Bhattacharya and Sen's (2004) research, which found that there is significant heterogeneity across consumer segments in their reactions to CSR activities, confirmed this.

This has implications for this study which considered the impact that CSI has on loyalty at the bottom of the pyramid (BoP) as customers' personal circumstances (of being at the BoP) may affect the final results.

#### **2.2.4 BANKING AND CSI**

Pomeroy and Dolnicar (2006, in McDonald and Rundle-Thiele, 2008) investigated a bank's CSR activities and concluded that customers preferred initiatives that benefited themselves rather than those that benefited the broader community. As part of their findings, they discovered that customer-centric initiatives (opening new branches and adding employees) were ranked more highly than community-oriented initiatives. In a study by McDonald and Rundle-Thiele (2008), their research also concluded that there is a mismatch between loyalty and massive spending on CSR programmes. They suggested that increasing CSR expenditure may not be the best method of increasing

loyalty. McDonald and Rundle-Thiele (2008) concluded that a bank's increased investment in CSR programmes may not represent the best investment in terms of increasing satisfaction. They proposed that customer-centric initiatives, those that benefit customers more directly, may achieve better customer outcomes than CSR initiatives. They also concluded that a hierarchy of CSR initiatives exists as some may have better outcomes for retail banking customers than other initiatives. They therefore suggested that further research is needed that looks at how customers rank CSI activities.

## **2.3 BOTTOM OF THE PYRAMID**

The term BoP was first coined by US president Franklin D. Roosevelt when he said, "These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power ... that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid" (Roosevelt, 1932).

### **2.3.1 WHY FOCUS ON THE BOTTOM OF THE PYRAMID?**

As suggested by Roosevelt's quote, those at the bottom of the pyramid are indispensable units of economic power. The discussion below addresses the reasons for this.

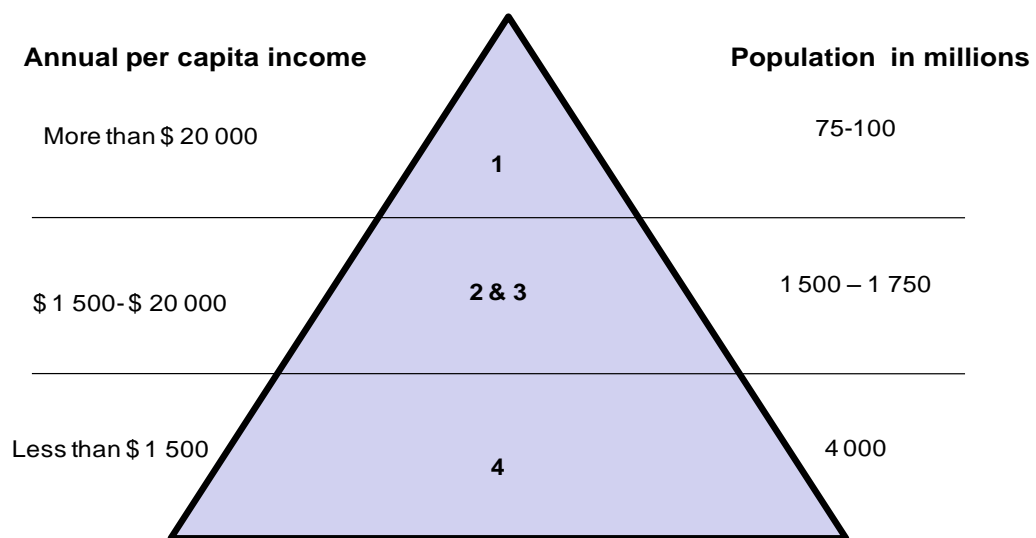
According to Prahalad and Hammond (2002), 65% of the world's population earn less than \$2 000 per year. In the same article, they quoted figures from the UN and the World Resources Institute showing that by 2015 the 1 300 largest cities in the world will account for approximately 1.5 billion to 2 billion people, representing roughly half the BoP consumers. This consumer segment is also accountable for a significant amount of consumer spending power and represents the best opportunity for growth to business (Nelson, 2009). With the potential that this market holds for untapped profitability, there is no questioning why many companies want to explore exactly how they can attract and retain consumers from the BoP.

BoP markets have traditionally been considered to be the domain of government, aid agencies, non-profit organisations and other NGOs (Subrahmanyam and Gomez-Arias, 2008). Increasingly however, a greater focus on this market is taking place by for-profit companies as well. The company that is searching for new markets and business opportunities may find a means of commercial revitalisation and ethical commitment by concentrating on the most disadvantaged (Martinez and Carbonell, 2007). Seelos and Mair (2007) suggested that organisations can both serve the poor and make profits. In serving this market, Martinez and Carbonell (2007) stated that companies that undertake activities at this end of the market must not be prompted by legal obligation. The activities they undertake must be aligned with organisational objectives and must be integrated into their strategies.

### 2.3.2 DEMOGRAPHICS AT THE BoP

Prahalad and Hart (2002) claimed that two-thirds of the world's population lie at the bottom of the pyramid, represented by Tier 4 in Figure 2.1 below. They earn less than \$2 a day, live in rural villages and in underdeveloped countries.

**Figure 2.1: World economic pyramid**



*Source:* Prahalad and Hart (2002)

Prahalad's work has been criticised by some academics who question some of the arguments and conclusions reached. Specifically, Karnani (2006, 2007) and Crabtree (2007) criticised the size of the market as well as the definition of BoP (claiming that it is those who earn less than \$2 a day). Karnani argued that Tier 4 as represented by Prahalad is actually much smaller and hence holds little or no benefit to multinationals.

Social capital is another strong characteristic of the BoP. Social capital refers to the norms and networks that enable people to act collectively (Woolcock and Narayan, 2000). A person's network, which includes family, friends and associates, is an important asset and can be called on in a crisis (Subrahmanyam and Gomez-Arias, 2008). Hence this segments want to build long-term relationships that lead to trust (Subrahmanyam and Gomez-Arias, 2008).

For the purposes of this study the views of Prahalad were accepted as Karnani and Crabtree have not been able to provide alternative information to prove the size of the population at the BoP. In later chapters consideration is given to South Africa's BoP.

For now, it is recognised that potential for economic growth exists at the BoP, albeit subject to some debate. Furthermore, the importance of networking and social capital to those at the BoP must be considered. The section below further attempts to unpack the unique characteristics of this market.

### **2.3.2.1 TRANSACTIONAL RELATIONSHIPS**

CSI should foster social bonds. However, low-income consumers have been found to have transactional relationships placing the question of relationship marketing and service quality in question for this group. Most consumers in the low-income category were found to have a transactional experience with their primary bank as they knew no one in the bank (O'Loughlin and Szmigin, 2006). Kumar *et al.* (2003) confirmed that



the transactional approach is more suited for the mass markets. These customers' contact with the bank was simple and with no specific employee of the bank. Transaction-based customers are focused solely on the transaction at hand and use overall satisfaction as the criterion to determine their attitudes and purchase intentions, while for relational customers purchase intentions are determined by their emotions and the level of trust and commitment that they have with an organisation (Garbarino and Johnson, 1999). The consequence of this is that customers who have a relationship with the company are willing to pay a high price premium. Hence it costs less to serve the customer and there is high word-of-mouth promotion (Kumar, Bohling and Ladda, 2003). This willingness of consumers to pay high prices at the BoP is, however, highly unlikely.

In contrast to transactional relationships is the concept of relationship marketing. This is the process of attracting, maintaining and enhancing customer relationships (O'Loughlin and Szmigin, 2006). According to Ravald and Grönroos (1996), relationship marketing (RM) is a way for firms to develop long-term relationships that are mutually beneficial and valuable. Relationship marketing thus aims to increase customer profitability while providing better services for customers (Leverin and Liljander, 2006).

In the context of banking, Walsh, Gilmore and Carson (2004) defined relationship marketing as those activities that are carried out by banks to attract, interact with and retain more profitable or high net-worth customers. Holmund and Kock (1996)

investigated the importance of relationship marketing in retail banks, focusing specifically on service quality. They discovered that banks that wanted to establish long-term relationships with their customers had to ensure that their customers were satisfied and that the service quality at least met their expectations. Hess, Ganesan and Klein (2003) suggested that the strength of the customer-organisation relationship can also affect the customers' responses to failures. They found that customers that had an ongoing relationship with an organisation had lower recovery expectations than customers that were in a discrete relationship. Molina, Martin-Consuegra and Esteban (2007) added that relationship marketing is able to increase customer loyalty. Holmund and Kock (1996), however, recognised that in banking, legal and economic bonds exist between the bank and its customers. They also claimed that social bonds develop because of the trust and knowledge developed during formal and informal face-to-face contact and, finally, that technical and planning bonds are present if the customer has no option regarding bank or geographical location. In this instance, even if the customer is dissatisfied, a shift of bank may not be possible.

From the above it is contended that the BoP customers are primarily transactional customers. Therefore the ability to foster social bonds and long-term relationships is put in question. Can good CSI activities be a substitute to create these social bonds?

### **2.3.3 SERVICE QUALITY**

The concept and importance of service quality was alluded to in the previous section. In the specific case of consumers at the BoP who are unable to establish long-term

relationships, they assess an organisation based on the interaction that they have. Hence service quality becomes a fundamentally important concept to the BoP. Parasuraman, Zeithaml and Berry (1988) defined service quality as a function of the ability to perform the promised service dependably and accurately, the willingness to help customers and provide prompt service, the knowledge and courtesy of employees and their ability to inspire trust, confidence and individualised attention, and the physical facilities, equipment and appearance of personnel.

Servqual, a model developed by Parasuraman *et al.* (1988), can be used to measure service quality. The model comprises *tangibles* (the appearance of physical facilities, equipment, employees and communication materials from a service company); *reliability* (the ability to perform the promised service dependably and accurately); *assurance* (politeness and courtesy in delivering the service); *responsiveness* (willingness to help customers and provide punctual services); and *empathy* (understanding the customer's individual needs and specific requirements).

Evaluation of service quality is necessitated by the fact that it can significantly influence bank loyalty (Lewis and Soureli, 2006). Customers' perception of service quality influences customer behaviour (Bitner, 1990; De los Salmones *et al.*, 2005), attitude towards a brand (De los Salmones *et al.*, 2005), evaluation of corporate image (Andreassen and Lindestad, 1998) and intention (Hennin-Thurau and Klee, 1997; Seth, Momaya and Gupta, 2005).

Grönroos (2001) suggested that the perceived quality of a service will be the result of an evaluation process in which customers compare their perceptions of service quality delivery and its outcome against what they expected. For consumers at the BoP, service quality may be the only variable against which they can evaluate the company as they have not had an opportunity to develop a relationship.

## **2.4 LOYALTY**

### **2.4.1 UNDERSTANDING THE CONCEPT OF LOYALTY**

Professor Oliver (1999, p. 34) eloquently defined loyalty as follows: “A deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing despite situational influences and marketing efforts having the potential to cause switching behaviour.” Szüts and Tóth (2008, p. 357) further defined loyalty as follows: “A customer’s faithful adherence to an institution (or merchant) despite the occasional error or indifferent service ... having entered into a business relationship with the financial institution, the customer maintains and continues the relationship.”

This would imply that even in instances where the service quality is poor or has the occasional wobble, customers are likely to overlook the error as a result of their loyalty to the company. It therefore makes business sense for companies to want to gain as many loyal customers as possible. The challenge, however, is that at the BoP the

clients are only able to assess the company based on a particular interaction and not a series of interactions. Hence their opinions are formed with limited information.

Uncles, Dowling and Hammond (2003) stated that there is no universally agreed definition of loyalty. However, it is generally accepted today that loyalty can be conceptualised as having both attitudinal and behavioural components. This was confirmed by Ball, Coelho and Macha (2004); Bloemer and Kasper (1995); Bollen (2008); and Szüts and Tóth (2008). Bowen and Chen (2001) further attempted to measure attitude and behaviour by stating that behavioural measurements consider consistent, repetitious purchase behaviour. The intention to continue with the relationship is fundamental to behavioural components (Szüts and Toth, 2008). Attitudinal measurements, however, are concerned with the sense of loyalty, engagement and trust. Bei and Chiao (2001) warned that loyalty is hard to measure as customers' repeat purchases may be as a result of convenience and not because they are loyal to the product, service or brand.

Exploring the concept of attitudinal loyalty further, Oliver (1999) stated that it often refers to a person's commitment towards the company or brand and is deeply rooted in values and emotions. It relates to commitment where the person is attached to an object through emotion (Gilliland and Bello, 2002). Commitment is defined by Moorman, Zaltman and Deshpande (1992, p. 316) as an "enduring desire to maintain a valued relationship". Morgan and Hunt (1994) argued that a company must win the

trust of their customers who must feel that the company is committed to their interests and needs. Trust by consumers has been presented in various literature as a strong determinant of behaviours such as commitment and loyalty (Grönroos, 2000; Sirdeshmukh, Singh and Sabol, 2002).

Interestingly, a study by Coulter and Coulter (2002) discovered that during the early stages of a service relationship when the customers were unfamiliar with relationship managers, factors such as similarity, empathy and politeness became important cues on which inferences of trust were made. Considering customers at the BoP, they are likely to have a fairly young service relationship and hence Coulter and Coulter's findings (2002) have important implications for this segment of the market. Furthermore, the factors such as empathy and politeness are variables that were discussed by Parasuraman (1988) and are also key variables in service quality. The implication of this is that customers at the BoP may value service quality more as they have not had an opportunity to experience anything else on which to assess the company. This links to some of the literature on relationship marketing as well which suggested that customers are likely to overlook the odd lapse in service once they have an ongoing relationship with the company (Hess, Ganesan and Klein, 2003)

Delving deeper into the attitudinal element of loyalty, Andreassen and Lindestad (1998) argued that corporate image, which is part of reputation, is an antecedent to customer loyalty. They further argued that reputation may actually be loyalty's

strongest driver. Another element that impacts on reputation is service quality. According to Wang, Lo and Hui (2003), service quality causes superior reputation in the banking industry in China. This was also confirmed by the research undertaken by Bontis, Booker and Serenko (2007).

It is important to highlight that some of the outcomes of CSI are improved corporate image (Branco and Rodrigues, 2008), a stronger brand (Brown and Dacin, 1997) and improved corporate reputation (Fombrun and Shanley, 1990). These are the same drivers of loyalty that have just been highlighted in this section.

In addition to attitudinal and behavioural loyalty, a third perspective also emerged, namely that of reasoned action theory (Gouranis and Stathakopoulos, 2004; Ha, 1998). This perspective suggested that pressures and influences from the social environment could explain the consumer's pattern of repeated purchases. Even though the consumer may not have a favourable attitude towards a brand, they are coerced into buying due to social influences. The converse also applies in that although a consumer may be aware of and have positive feelings towards a brand, they may still not purchase it due to not being able to afford it or a partner not liking it. The implication of this at the BoP is that even those consumers who are directly affected by CSI may remain unbanked.

Gouranis and Stathakopoulos (2004) attempted to combine behavioural, attitudinal and reasoned action theory. Their study revealed four specific types of loyalty. Premium loyalty represents the highest level of loyalty since premium loyal consumers have a favourable attitude towards the brand, they repeatedly purchase it and they also have the approval of society when they do so. Inertia loyalty also encompasses a pattern of repeated purchases, but is much weaker as it lacks both affectional and social reinforcement. The repeated purchase is explained by habitual or convenience-seeking behaviour. Covetous loyalty does not involve the purchasing of the brand. Covetous loyal customers have developed positive feelings of affection for the brand and this is reinforced by society. These consumers are important for the brand as they are able to generate income indirectly by influencing the choice of peers, relatives and friends. The last type is one where no loyalty is displayed.

In the banking sector, loyalty is viewed in relation to the length of time a customer has been with a provider, number of services used and frequency of service use (Lewis and Soueli, 2006). Some of the advantages cited by David (2007) include positive word of mouth, increased success in selling additional services and products to customers as well as reduced marketing time and costs. This was supported by Harris and Goode (2004) who claimed that loyal customers buy more, spend more, are easier to reach and act as advocates for the organisation.



Based on the evidence above it is quite clear that the behavioural component of loyalty is to a large extent the outcomes that will be experienced once a customer is loyal to the company. As evidenced in the previous discussion on relationship marketing, establishing a relationship with a company is crucial to satisfy the requirements for the attitudinal component of loyalty, which in this case is trust and reputation.

Owing to the rather complex nature of loyalty, Hennin-Thurau, Gwinner and Gremler (2002) suggested that a cautious approach that looks at interrelated constructs of loyalty is therefore more prudent as a holistic approach may better explain it. When constructing the model used in this research, this was a key consideration. The two composite variables used to explain loyalty were the consumers' commitment as well as their continuing to use the product.

Finally, in understanding loyalty it is critical that an understanding of how loyalty impacts on individuals is discussed. According to Harrison (1994), customer characteristics such as personality, demographic, social and economic variables, banking expertise and knowledge of financial services have an impact on the formation and development of loyalty. A one-size-fits-all approach would therefore not be appropriate and must be considered as this study focused on a specific consumer segment of the market that has a particular social disposition.

#### **2.4.2 OUTCOMES OF LOYALTY**

Customer loyalty, in general, holds benefits for companies. According to Meidan (1996), loyalty is increasingly a concern to companies as they are aware of its impact on increasing and guaranteeing income. This makes loyalty a key determinant for profitability. Similarly, Castro and Armario (1999, in Beerli, Martin and Quintana, 2004) stated that loyal customers increase the value of the business and enable companies to maintain lower costs when compared to the costs of attracting new customers. This was also confirmed by Gouranis and Stathakopoulos, 2004.

#### **2.4.3 OUTCOMES OF LOYALTY IN BANKING**

As this study focused on loyalty in the banking sector, this section considers specific outcomes in banking. A study by Lewis and Soureli (2006) examined loyalty in retail banking in Greece. Their study concluded that customer satisfaction is the main antecedent to loyalty and to keep customers satisfied, there needs to be a focus on high-quality service. (This view was also expressed by Parasuraman *et al.* (1988).) Other conclusions reached were that some bank customers show spurious loyalty as they are willing to defect to competitor banks that offer better rates while other customers are truly loyal, are willing to provide good referrals about the service to others and want to remain customers of their bank. Also, a number of bank customers associate loyalty with the value that they receive from their bank and convenience. Hence their loyalty is mainly cognitive and is subject to situational changes.

The importance of convenience was also stressed in the findings of O’Loughlin and Szmigin (2006). In a study by Beerli *et al.* (2004), they found that although customers may be satisfied with the quality of the service they receive, they were not happy to make an economic sacrifice to receive that service and this could then cause the “spurious” loyalty mentioned by Lewis and Soureli (2006).

Luo and Bhattacharya (2006) studied the relationship between CSR and the market value of the company. They identified that the relationship between CSR – customer satisfaction – and the market value chain suggested that a company’s CSR helps build a satisfied customer base and ultimately loyalty, and this partially mediates the financial returns. They also found that the financial returns on CSR are increased where companies have higher product quality.

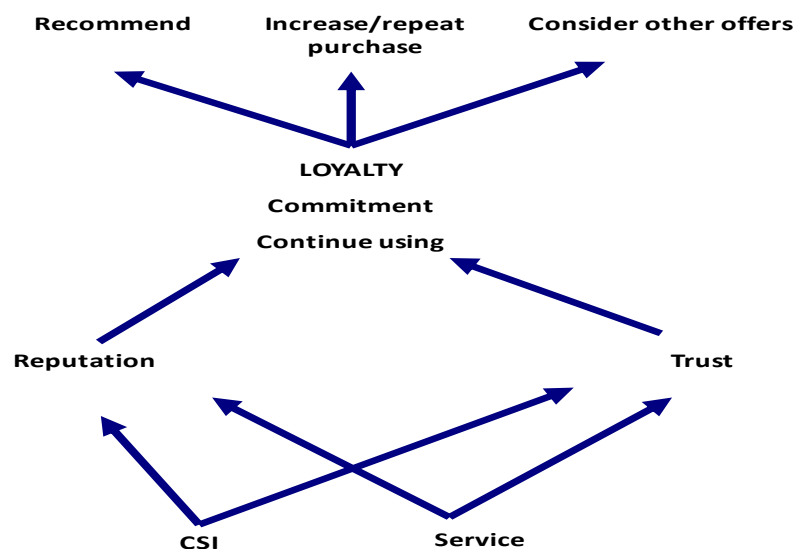
There is no doubt that loyalty holds many benefits for companies and that companies that can create and hold on to loyal customers are more likely to gain a competitive advantage.

## **2.5 CONCLUSION**

“It is clear that loyalty cannot be examined separately in relation to each potential factor: instead, each antecedent needs to be considered within a network of relationships where loyalty is the outcome of all these inter-relationship” (Lewis and

Sourel, 2006, p. 27). Based on the literature, the following variables were included in this study to investigate whether CSI is a driver of customer loyalty at the BoP. They are illustrated in the structural model in Figure 2.2 below. Loyalty in terms of the model comprises a consumer's commitment to the company as well as being willing to continue using the company. The behavioural response to loyalty is measured by a consumer's willingness to recommend the bank, to open other accounts with the bank and finally not to consider offers from other banks. Due to the literature also suggesting that service quality leads to loyalty and knowing that service quality is important to those at the BoP, the dimension of service quality was also included in this model.

**Figure 2.2: Structural model**



## CHAPTER 3: HYPOTHESES

### *Hypothesis 1*

Consumers are aware of CSI activities.

### *Hypothesis 2a*

Those consumers who are aware of CSI activities have greater positive attitudes towards corporate reputation.

### *Hypothesis 2b*

Those consumers who are aware of CSI activities have greater trust in the brand.

### *Hypothesis 2c*

Those consumers who are aware of CSI activities display greater loyalty towards the brand.

### *Hypothesis 3a*

CSI has an impact on reputation which in turn affects loyalty and leads to increased customer recommendations of the CSI brand to others.

*Hypothesis 3b*

CSI has an impact on reputation which in turn affects loyalty and leads to greater customer repeat purchases.

*Hypothesis 3c*

CSI has an impact on reputation which in turn affects loyalty and leads to decreased customer consideration of other offers.

*Hypothesis 4a*

CSI has an impact on trust which in turn affects loyalty and leads to increased customer recommendations of the CSI brand to others.

*Hypothesis 4b*

CSI has an impact on trust which in turn affects loyalty and leads to greater customer repeat purchases.

*Hypothesis 4c*

CSI has an impact on trust which in turn affects loyalty and leads to decreased customer consideration of other offers.

*Hypothesis 5a*

Service delivery has an impact on reputation which in turn affects loyalty and leads to increased customer recommendations of the CSI brand to others.

*Hypothesis 5b*

Service delivery has an impact on reputation which in turn affects loyalty and leads to greater customer repeat purchases.

*Hypothesis 5c*

Service delivery has an impact on reputation which in turn affects loyalty and leads to decreased customer consideration of other offers.

*Hypothesis 6a*

Service delivery has an impact on trust which in turn affects loyalty and leads to increased customer recommendations of the CSI brand to others.

*Hypothesis 6b*

Service delivery has an impact on trust which in turn affects loyalty and leads to greater customer repeat purchases.

*Hypothesis 6c*

Service delivery has an impact on trust which in turn affects loyalty and leads to decreased customer consideration of other offers.

## **CHAPTER 4: RESEARCH METHODOLOGY**

### **4.1 RESEARCH CLASSIFICATION**

This study aimed to determine whether CSI leads to loyalty at the bottom of the pyramid. The concepts of CSI and loyalty are topics that are well researched and understood and there was therefore no need for any exploratory research to be undertaken. Causal research would also have been inappropriate as the study was not exploring explicit cause-and-effect relationships. Descriptive research was thus used.

Using descriptive research was appropriate as it seeks to determine the answers to who, what, where and how questions (Zikmund, 2003). Using descriptive research also allowed the study to gain a better understanding of the specifics or details that are relevant to the BoP market.

### **4.2 RESEARCH DESIGN**

Various methods of conducting descriptive research exist such as surveys, experiments, observation and the use of secondary data (Zikmund, 2003). This study considered the relationship between two variables, that of CSI and loyalty, and specific information was required. Conducting experiments, observing respondents or considering secondary data would not have produced the desired results and the study



therefore relied on a survey methodology. The benefit of a survey is that it is quick, inexpensive and an accurate means of obtaining information for a variety of objectives (Zikmund, 2003).

### **4.3 DATA COLLECTION METHOD**

Data was collected by means of face-to-face personal interviews using a structured questionnaire (Appendix C). Zikmund (2003, p. 199) defines personal interviews as “a form of direct communication in which an interviewer asks respondents questions in a face-to-face situation”.

The main reason for applying this method was the lack of access to technology such as landlines (telephones) or the internet in South Africa. This limited the number of methods that could be used. Although a large number of South Africans at the bottom of the pyramid have cellular phones (66.96% according to AMPS 2008A), these contact details were not readily available in a telephone directory and if random digit dialling were to be used, it would prove expensive. In addition, this research was conducted by an employee of one of the four banks targeted in this study. The likelihood that the other banks would provide contact details from which interviews could be conducted was highly unlikely due to their competitive nature.

When conducting the interviews, show cards were used to show or explain the meaning of some of the concepts to avoid misinterpretation or confusion.

#### 4.4 QUESTIONNAIRE DESIGN

A questionnaire must meet two basic criteria if it is to achieve the purpose of the study, namely it must be relevant and accurate (Zikmund, 2003). A questionnaire is relevant if no unnecessary information is collected and if the information that is needed to solve the problem is obtained. The accuracy of the questionnaire is determined by ensuring that it is reliable and valid.

The questionnaire was designed by applying a funnelling technique that asked general questions before asking more specific questions. This was done to ensure that no biased responses were obtained. Scale items and terms used in the questionnaire were also translated into the relevant languages of the respondents by the interviewers to ensure that the respondents understood the questions.

The variables relevant to trust and reputation were unpacked in terms of three items based on their intrinsic meaning. These were tested by means of face validity by a market research professional and by means of a Cronbach alpha that tested the internal consistency reliability. The results for the Cronbach alpha are provided in Chapter 5. The service quality questions focused on the people component as, according to Parasuraman *et al.* (1988), service quality amongst other variables has to do with employees' willingness to help customers and to provide prompt service, the knowledge and courtesy of employees, and their ability to inspire trust and confidence.

#### 4.5 SCALE

This research aimed mainly to measure attitudes. An attitude is defined as “an enduring disposition to respond consistently in a given manner to various aspects of the world, including persons, events and objects” (Zikmund, 2003, p. 308). Attitude consists of three components, namely an affective component that reflects an individual’s general feeling or emotion towards an object, a cognitive component that represents a person’s awareness of and knowledge about an object and a behavioural component that reflects a predisposition to action as it contains both an intention and a behavioural expectation.

There are several ways in which to measure attitudes such as ranking, rating, sorting or choosing. In determining the appropriate measure, consideration was given to the three components of attitudes as these may be measured by different means (Zikmund, 2003). This study primarily focused on the behavioural component and so a rating scale was adopted. Respondents were asked to rate the magnitude of a characteristic or quality.

A Likert-type response scale was used and respondents were asked to rate the statements either by indicating the extent to which they agreed or disagreed with the statements that ranged from very positive to very negative or by indicating how they would rate the activity from excellent to poor. To measure the attitude and to make data analysis possible, a score or weight was attached to the responses as illustrated in

Figure 4.1 (Zikmund, 2003). The weighting attached was dependent on the questions asked.

**Figure 4.1: Likert scale**

<b>1</b> Poor	<b>2</b> Need work	<b>3</b> Neutral	<b>4</b> Good	<b>5</b> Excellent
<b>1</b> Strongly disagree	<b>2</b> Disagree	<b>3</b> Neutral	<b>4</b> Agree	<b>5</b> Strongly agree

## 4.6 POPULATION

The population had to be both banked and part of the bottom of the pyramid (BoP) to be included in the study. To clearly demarcate the population boundaries, the banking and BoP populations were first defined, rendering the overlap between the two as the population for the study.

### 4.6.1 BANKING POPULATION

It is important to define the target population so that the proper source from which the data is to be collected is identified (Zikmund, 2003). In this instance, the population was bank customers in South Africa. South Africa has just over 20 million banked adults (Finmark Trust, 2008). Analysis of the AMPS 2008B data allowed the banked population also to be matched to living standard measures (LSM), as well as to race as

illustrated in Table 4.1. Table 4.1 was adapted from AMPS 2008B – RA Individual Database and Finmark Trust 2008 up to LSM 8. The main race group was black.

**Table 4.1: Adapted from AMPS 2008B – RA Individual Database and Finmark Trust 2008**

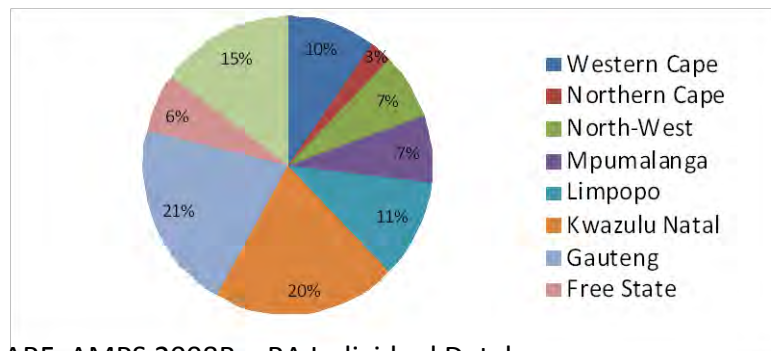
LSM	Banked Population	%	Race (Main)	Average monthly Income
1	1,062,469	4	Black	723
2	2 728 974	10	Black	579
3	2 878 219	10	Black	788
4	4 493 493	16	Black	848
5	4 816 262	17	Black	1 168
6	5 431 490	19	Black	1 916
7	2 634 936	9	Black	2 791
8	1 768 640	6	Black	4 613
9	1 812 575	6	White	5 794
10	1 038 430	4	White	10 721
	28 665 488			

Of the 20 million banked adults in South Africa, 89% of them banked with Absa Bank, First National Bank, Nedbank or Standard Bank (SAARF, AMPS 2008A). These four banks also made significant contributions to CSI. During 2008, Absa Bank spent R131.8 million on their CSI initiatives ([www.absa.co.za](http://www.absa.co.za)), FNB allocated R32.8 million through

their FNB fund for CSI activities ([www.fnb.co.za](http://www.fnb.co.za)), Nedbank donated R53.5 million to community development programmes ([www.nedbank.co.za](http://www.nedbank.co.za)) and Standard Bank spent over R114 million ([www.standardbank.co.za](http://www.standardbank.co.za)). In considering CSI in the banking sector, the focus was on those banks that have made a significant contribution to CSI activities.

Figure 4.2 shows the geographical spread of the banked population per province (SAARF, AMPS 2008B – RA Individual Database). Gauteng had the largest banked population in South Africa at 21%.

**Figure 4.2: Banking population per province**



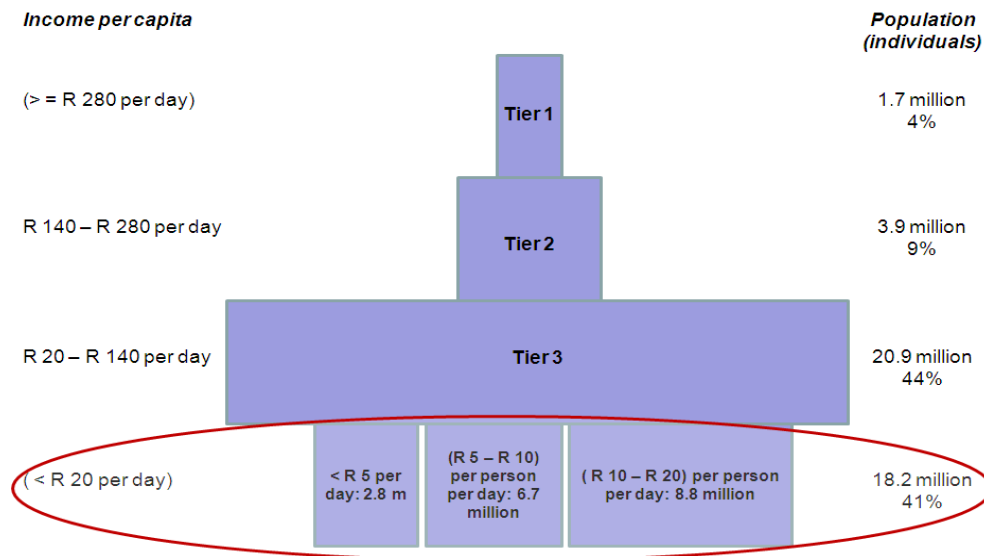
Source: SAARF, AMPS 2008B – RA Individual Database

#### 4.6.2 BOTTOM OF THE PYRAMID

South Africa's BoP, according to Insight out (Eighty20, 2008), can be defined as those individuals who earn R20 or less per day. Figure 4.3 illustrates graphically that BoP in South Africa can be divided into 2.8 million households living on less than R5 a day, 6.7

million households living on between R5 and R10 a day, and 8.8 million households living on between R10 and R20 a day.

**Figure 4.3: South Africa's BoP**



Source: Insight out (Eighty20, 2008, p. 4)

Linking this to the LSMs described in Table 4.1, and based on Insight out's definition, South Africa's BoP falls mainly into LSM 1 and 2. This was based on the assumption that an individual works 22 days a month and hence earns a monthly income of R440. Considering, however, that tier 3 also has a population of 20.9 million who earn between R20 and R140 a day, the scope of this research was extended to include those individuals that earn up to R3 000 monthly (R140 x 22 = R3 080).

According to SAARF's definition of LSM 1 and 2, these consumers are likely to reside outside Gauteng. By expanding the scope of the definition to include tier 3, this study broadened the scope to include those individuals that reside in Gauteng.

To summarise, the population for this research was black bank customers who bank with those banks that have made significant contributions to CSI, who resided in Gauteng and who earned a monthly income of R3 000 or less.

## **4.7 SAMPLE**

### **4.7.1 SAMPLE SIZE**

The purpose of sampling was to select a statistically appropriate number of banking customers who formed part of the larger banking population to draw conclusions and make recommendations regarding the whole population.

According to Albright, Winston and Zappe (2006), the sampling error tends to decrease as the sample size increases and so many researchers are encouraged to minimise the sampling error by selecting a larger sample. The authors cautioned, however, that a trade-off needs to occur between opposing forces when a sample is selected. As part of their suggestion, the following were considered, namely cost of sampling, timely collection of data and non-sampling error. In the case of cost of sampling, a larger sample would have been more expensive. In this instance a research company was



used so cost was a major factor in the sample size selected. Also, if a large sample had been selected, it would have taken more time to gather data and the researcher in this instance had specific deadlines to meet. Lastly, there was an increased chance of non-sampling error with a large sample size.

In determining an appropriate sample size with a 95% confidence level and in applying the formula below, a sample size of 384 was required.

$$\begin{aligned} \text{Sample size} &= \frac{Z^2 (p) * (1 - p)}{C^2} \\ &= \frac{(1.96)^2(0.5) * (1 - 0.5)}{(0.05)^2} \\ &= 384 \end{aligned}$$

Z = Z value – 1.96 for 95% confidence level  
 p = estimated proportion of successes  
 1 – p = estimated proportion of failures  
 C = confidence interval, expressed as a decimal –0.05

However, as a result of cost and time considerations, a smaller sample of 202 was used. This resulted in a confidence interval of 6.93%. The width of the confidence interval gives some idea regarding the uncertainty of the unknown parameter (Albright *et al*, 2006). The norm is a confidence level of 5%.

#### 4.7.2 SAMPLING TECHNIQUE AND FRAMEWORK

Quota sampling was applied in this study. Quota sampling is described as a “non-probability sampling procedure that ensures that certain characteristics of a population sample will be represented to the exact extent that the investigator desires” (Zikmund, 2003, p. 383). In this instance the study did not want to leave the

selection process to chance and risk having some variation (Zikmund, 2003). By applying quota sampling, the study attempted to determine whether perceptions of customers across the banks differed. This was also relevant in view of the fact that the banks have different CSI programmes.

Based on the above criteria and the characteristics of the population, the quotas shown in Table 4.2 were obtained.

**Table 4.2: Sampling framework**

		Absa	FNB	Nedbank	Standard Bank	Sub-total	Total
	Total sample	50	52	50	50		202
Gender	Male	24	24	24	24	96	202
	Female	26	28	26	26	106	
Race	Black	50	52	50	50	202	202

In addition, at least 50% of the respondents had to be aware of CSI activities. This was relevant to determine if there was a difference based on whether or not individuals were aware of CSI activities or not.

## **4.8 STATISTICAL ANALYSIS**

### **4.8.1 DESCRIPTIVE STATISTICS**

Descriptive statistics is the process of transforming data to make it easy to understand and interpret (Zikmund, 2003). A single number is used to summarise data (Dillon, Madden and Firtle, 1993). Descriptive statistics entails various forms of results, for example percentages, measures of central tendency (mean, median and mode) as well as measures of variability (standard deviation).

Determining the internal consistency of each scale item is also descriptive in nature. As such, there are various ways in which to display descriptive statistics. For the purpose of this study, descriptive statistics was discussed to provide a summary of the results, yet is less important than the inferential statistics discussed below.

### **4.8.2 INFERENCE STATISTICS**

There is a significant amount of literature on inferential statistics relevant to measuring customer experience, satisfaction and loyalty in a business and academic context (for example Andreassen and Lindestad, 1998; Jaiswal and Niraj, 2007; Terblanche and Hofmeyr, 2005; Venkat, 2007). Several methods for investigating relationships exist such as cross-sectional correlation analysis (Clancey, Berger and Krieg, 2008), Shapley value and attributable risk techniques (Conklin, Powaga and Lipovetsky, 2008), structural equation modelling (SEM) techniques (Anderson and Gerbing, 1988; Andreassen and Lindestad, 1998; Hair, Anderson, Tatham and Black,

1998; Marin and Ruiz, 2007; Venkat, 2007), and bivariate and multivariate regression (Healy, 1990).

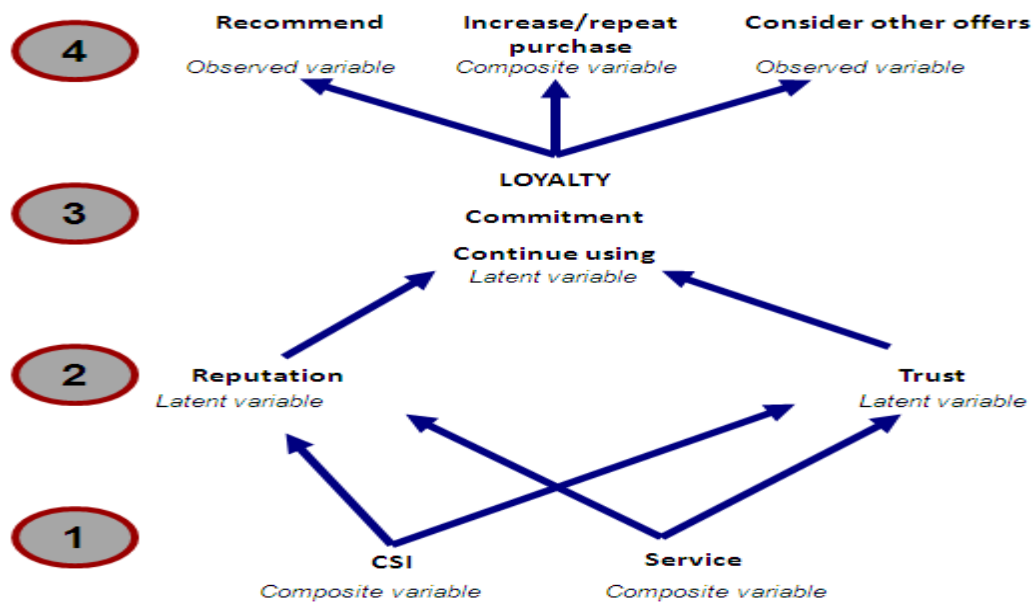
According to Hershberge, Marcoulides and Parramore (2003, p. 6), SEM “represents translations of a series of hypothesized cause-effect relationships between variables into a composite hypothesis concerning patterns of statistical dependencies”. Relationships are described by parameters used to indicate the magnitude of indirect and direct effects that independent variables have on dependent variables (Hair *et al.*, 1998; Hershberge *et al.*, 2003).

SEM can be viewed as a combination of factor analysis and regression or path analysis (Hox and Bechger, 2000). As such, the model building task can be thought of as the analysis of two conceptually distinct models (Anderson and Gerbing, 1988), whereas factor analysis represents an exploratory measurement (i.e. exploring relationships between variables) and regression the confirmatory measurement (i.e. testing the proposed theoretical model) (Hox and Bechger, 2000; Hershberge *et al.*, 2003).

Figure 4.4 illustrates the model that was used. Loyalty (depicted by layer 3) in this study was used as a composite latent variable as it is not directly observable. It consisted of commitment (attitudinal component) and the intention to continue using the bank (behavioural component). The other latent variables in the model were reputation and trust which are also the moderator variables. Loyalty was the dependent variable, while layers 1, 2 and 4 were the independent variables. To explore

all the hypotheses, however, layers 2 and 3 were in turn used as independent and dependent variables. Layer 1 represented by CSI and service was always the independent variable in this regard. CSI and service were composite variables as they were constructed from more than one variable.

**Figure 4.4: Structural model**



Structural equation modelling (SEM) was applied in this context to hypotheses 2 to 6 and examined the total effects, indirect effects and alternative paths. According to Hair *et al.* (1998), SEM is particularly useful when one dependent variable becomes an independent variable in subsequent dependence relationships, as described in the model above.

For hypothesis 1 an independent t-test was used as the study wanted to determine the probability that two populations (those that are aware of CSI activities and those that are not) were the same with respect to the variable tested. The impact of awareness and benefits was examined using Anova.

#### **4.9 ETHICAL CONSIDERATIONS**

The primary ethical considerations related to the respondents. The company responsible for the data collection phase is governed by the code of conduct of the South African Marketing and Research Association. Relevant to this research, this code included giving respondents a choice to participate in the survey. This is standard procedure and was stated in the introductory paragraph of the questionnaire. In addition, individual responses were not revealed to other companies or reported on in any manner. Details of respondents were not used for other research or marketing purposes unless permission was granted by each respondent. The interviews were conducted in a language that the respondents felt comfortable with.

## **CHAPTER 5: RESULTS**

### **5.1 INTRODUCTION**

As the statistical analysis and sample characteristics of this study were complex, the interviews and statistical analysis were conducted by an independent market research company accredited to SAMRA. An external research company, RFACT, was used to gather the data.

The data was gathered in terms of a predetermined quota over a two-week period in Soweto. Soweto was chosen as a result of its convenient location and the demographics of the area, i.e. the research house was able to find consumers from the relevant LSM groups.

### **5.2 QUESTIONNAIRE DESIGN RESULTS**

A measure of construct reliability, the Cronbach alpha, was computed for the dimensions of reputation, trust and service quality to assess the internal consistency and reliability. A Cronbach alpha between 0.70 and 0.90 indicates a high or good internal consistency and reliability, while a value of between 0.40 and 0.70 indicates a medium internal consistency and reliability (Pallant, 2005). These coefficients, as

illustrated in Table 5.1, ranged from 0.510 to 0.743, thus indicating a medium to high internal consistency and reliability.

**Table 5.1: Cronbach alpha**

Dimensions	Cronbach's alpha
Reputation	0.627
Trust	0.510
Service quality	0.743

Further analyses were conducted on the reputation and trust dimensions to determine what impact it would have on the Cronbach alpha if any variable within that dimension were deleted. Tables 5.2 and 5.3 illustrate the results for both. They indicate that by deleting any of the variables, the results for the Cronbach alpha were not improved. The original results presented in Table 5.1 were therefore accepted.

**Table 5.2: Cronbach alpha for the dimension reputation**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Q22 Reputation	9.02	.985	.498	.248	.444
Q24 Excellent Image	9.07	.930	.430	.199	.543
Q26 Well Known	8.97	1.094	.388	.159	.593



**Table 5.3: Cronbach alpha for the dimension trust**

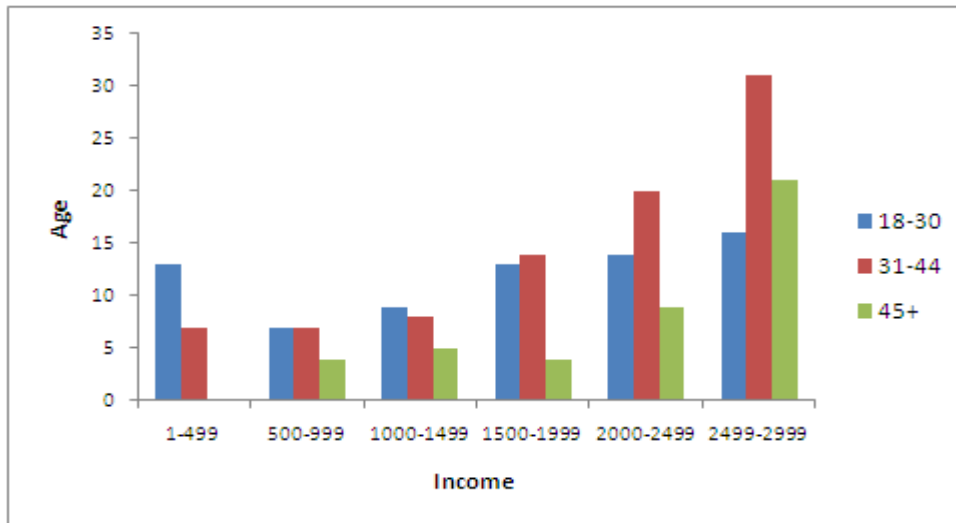
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Q23 Trust	8.59	1.148	.295	.087	.456
Q25 My Best Interests	8.84	1.033	.337	.115	.387
Q27 Have Faith In	8.69	1.002	.342	.118	.379

### 5.3 DEMOGRAPHICS

Interviewees were drawn from black bank customers who earned a monthly income of R3 000 or less and who bank with banks that have made significant contributions to CSI. In total, 202 individuals were sampled.

Analysing this further in terms of age and income showed that 33.7% of respondents earned a monthly income of between R2 500 – R2 999, 21.3% respondents earned between R2 000 – R2 499, 15.3% respondents earned between R1 500 – R1 999, 10.9% earned between R1 000 – R1 499, 8.9% earned between R500 – R999 and 9.9% between R1 – R499. With regard to the aspect of age, 43.1% of the respondents were between the ages of 31 – 44, followed by 35.6% of respondents between the ages of 18 – 30 and finally, 21.3% being 45+. This is represented graphically in Figure 5.1.

**Figure 5.1: Respondents in terms of age and income**



## 5.4 RESULTS

The key variables in this study that were also the latent variables were CSI, reputation, trust and loyalty. In presenting the results this paper considered the results for these individual variables and linked them to the hypotheses presented in Chapter 3. Table 5.4 presents the mean, beta and R<sup>2</sup> results for some of the key variables.

**Table 5.4: Results for key variables**

Key variables	Mean	Beta	R <sup>2</sup>
Reputation	4.510	0.21	0.22
Trust	4.353	0.61	0.39
Loyalty	4.43	*0.40//0.37//0.35// 0.30	0.50

\* Loyalty measures 3 different outcome with the variable increased purchases being measured by 2 items.

The  $R^2$  value represented the percentage of variance accounted for in the dependent variable by the set of independent variables. Any value of  $R^2 \geq 0.10$  is a good start in explaining the variance between the dependent and independent variables (Coolidge, 2006).

Considering the results, this suggested that for reputation 22% of the variance was explained by CSI and quality of service, for trust 39% of the variance was explained by CSI and quality of service and for loyalty 50% of the variance was explained by the variables reputation and trust.

#### 5.4.1 HYPOTHESIS 1

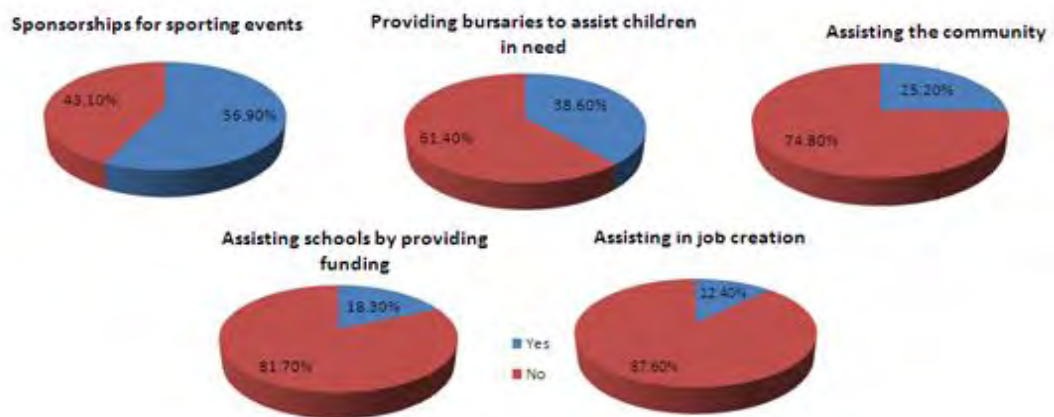
An independent t-test was used to test the statistical differences between the mean scores perception between those respondents who were aware of CSI activities and those who were not. Table 5.5 shows the split based on awareness levels of CSI activities.

**Table 5.5: CSI awareness**

	Frequency	Percentage
Not aware	71	35.1
Aware	131	64.9
Total	202	100

The activity that received a high awareness was sponsorship for sporting events (56.9%) followed by providing bursaries to assist children (38.6%).

**Figure 5.2: Awareness of different CSI activities**



Interestingly, when the respondents who were aware of CSI activities were asked if they benefited from them, most of them responded in the negative.

The analysis confirmed that the majority of the consumers were aware of CSI activities, that the means of the awareness level were the same and that even those that were aware claimed to receive no benefit. Generally, however, awareness was limited to sporting events (57%) with less than 25% having any awareness of community-benefit programmes (assisting the community, school funding and job creation). Table 5.6 reflects the results for the one sample t-test.

**Table 5.6: Results for t-test**

	Test value= 0.5					
	t	df	Sig. (2-tailed)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
"aware" recoded for T test	4.410	201	0.000	0.149	0.08	0.21

The mean values for the various variables broken down into respondents' awareness levels of CSI activities were also calculated as reflected in Table 5.7. There was little difference in the means between those respondents who were aware and those who were not. In some instances the results also indicated that the mean scores for those respondents who were not aware were even higher. An example of this was the variable "committed" – those respondents who were aware of CSI activities had a mean of 4.31 versus a mean of 4.41 for those who were not aware.

**Table 5.7: Mean scores based on awareness levels**

Variable	Aware(mean)	Not aware(mean)	Standard Deviation(aware /not aware)
Committed (Loyalty)	4.31	4.41	0.692//0.577
Continue using (Loyalty)	4.53	4.41	0.624//0.667
Recommend (Outcome)	4.21	4.2	0.731//0.786
Open other accounts for themselves (Outcome)	4.14	4.27	0.857//0.878
Open other accounts for their kids (Outcome)	4.16	4.17	0.792//0.878
Consider other offers (Outcome)	2.31	2.18	1.124//1.163
Reputation	4.5	4.52	0.612//0.531
Excellent image (Reputation)	4.44	4.49	0.681//0.606
Well known (Reputation)	4.60	4.48	0.578//0.582
Trust	4.47	4.46	0.636//0.581
Considers my best interests (Trust)	4.15	4.35	0.662//0.635
I have faith in my bank (Trust)	4.35	4.41	0.679//0.667
Willing to assist (Service quality)	4.33	4.48	0.684//0.582
Politeness (Service quality)	4.35	4.35	0.722//0.699
Knowledge (Service quality)	4.52	4.51	0.649//0.606
Friendliness (Service quality)	4.49	4.39	0.672//0.765

One of the assumptions made by the standard t-test is that the two populations being sampled have equal variance. Hence a Levene's test was performed to test and verify that this equal variance assumption was reasonable.

The probability that the variances were equal was reported in the value labelled "Sig", which stands for "significance" or "p value". This number is a probability between 0 and 1. The closer it is to 1, the greater is the probability that the variances are equal. In this study a p value  $< 0.05$  implied they were probably different as this is the standard practice in the behavioural sciences. Analysing the data below confirmed that the samples had equal variance. Table 5.8 reflects the results of the Levene's test.

**Table 5.8: Levene's Test**

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Q28 Committed	Equal variances assumed	2.903	.090	1.046	199	.297	.101	.097	-.090	.292
	Equal variances not assumed			1.105	164.182	.271	.101	.092	-.080	.282
Q29 Continue	Equal variances assumed	.388	.534	-1.255	200	.211	-.118	.094	-.304	.068
	Equal variances not assumed			-1.230	135.737	.221	-.118	.096	-.308	.072
Q30 Recommend	Equal variances assumed	.008	.929	-.094	200	.925	-.010	.111	-.229	.208
	Equal variances not assumed			-.092	134.981	.926	-.010	.113	-.234	.213
Q31 Open Another Account- Personal	Equal variances assumed	.014	.908	1.022	200	.308	.130	.127	-.121	.381
	Equal variances not assumed			1.015	140.831	.312	.130	.128	-.123	.384
Q32 Open Account for Children	Equal variances assumed	1.726	.190	.072	200	.943	.009	.121	-.231	.248
	Equal variances not assumed			.070	131.627	.945	.009	.125	-.239	.256
Q33 Consider Other Offers	Equal variances assumed	.221	.638	-.775	200	.439	-.130	.168	-.460	.201
	Equal variances not assumed			-.767	139.568	.444	-.130	.169	-.465	.205
Q22 Reputation	Equal variances assumed	2.452	.119	.201	200	.841	.017	.086	-.153	.187
	Equal variances not assumed			.209	162.030	.834	.017	.083	-.146	.181



Q24 Excellent Image	Equal variances assumed	1.907	.169	.519	200	.604	.050	.097	-.140	.241
	Equal variances not assumed			.538	158.539	.592	.050	.093	-.134	.235
Q26 Well Known	Equal variances assumed	.636	.426	-1.455	200	.147	-.124	.085	-.292	.044
	Equal variances not assumed			-1.452	142.738	.149	-.124	.086	-.293	.045
Q23 Trust	Equal variances assumed	1.075	.301	-.009	200	.992	-.001	.091	-.180	.179
	Equal variances not assumed			-.010	155.124	.992	-.001	.089	-.176	.174
Q25 My Best Interests	Equal variances assumed	.786	.376	2.074	200	.039	.199	.096	.010	.389
	Equal variances not assumed			2.100	148.967	.037	.199	.095	.012	.387
Q27 Have Faith In	Equal variances assumed	.015	.904	.576	200	.565	.057	.099	-.139	.253
	Equal variances not assumed			.579	145.810	.563	.057	.099	-.138	.253
Q35 Staff - Willing to Assist	Equal variances assumed	.438	.509	1.572	200	.118	.151	.096	-.038	.340
	Equal variances not assumed			1.649	164.466	.101	.151	.091	-.030	.331
Q36 Staff - Politeness	Equal variances assumed	.247	.620	.009	200	.993	.001	.105	-.207	.209
	Equal variances not assumed			.009	147.840	.993	.001	.104	-.205	.207
Q37 Staff - Knowledge	Equal variances assumed	.385	.536	-.129	200	.898	-.012	.093	-.196	.172
	Equal variances not assumed			-.131	152.210	.896	-.012	.092	-.193	.169
Q38 Staff - Friendliness	Equal variances assumed	1.810	.180	-.905	200	.366	-.094	.104	-.299	.111
	Equal variances not assumed			-.871	128.710	.385	-.094	.108	-.308	.120



The analysis confirmed that the majority of the consumers were aware of CSI activities (65%), that the means of the awareness level were the same and that even those who were aware claimed to receive no benefit.

The evidence obtained for Hypothesis 1 did not allow the researcher to reject the null hypothesis.

#### **5.4.2 HYPOTHESIS 2 TO HYPOTHESIS 6**

These hypotheses were measured using structural equation modelling (SEM). SEM examines a series of dependence relationships simultaneously and is considered useful when one dependent variable becomes an independent variable in subsequent dependence relationships (Hair *et al.*, 1998). In this instance variables such as reputation and trust were used both as dependent and independent variables. The benefit of using SEM is that it provides a straightforward method for dealing with multiple relationships while at the same time providing statistical efficiency (Hair *et al.*, 1998).

There are several tests that can be used to ascertain whether an SEM model fits the observed data. Goodness of fit statistics were run to determine this, the results of which are presented in Table 5.9.

**Table 5.9: Goodness of fit statistics**

Goodness of fit statistics	Value
Chi squared	181.42 (p =0.00)
Degrees of freedom	95
Comparative fit index	0.90
Normed fit index	0.83
Non-normed fit index (NNFI)	0.86
Root mean square (RMR)	0.033

Acceptable model fits are indicated by NNFI and CFI values exceeding 0.90 and RMR values less than 0.05 (Browne and Cudeck, 1992). According to Bollen (1989), a better criterion in determining model fit is to compare the fit of one's model to the fit of other prior models of the same phenomenon. As no evidence could be found of a study of a similar nature with a focus on the bottom of the pyramid, the level of fit with the model used was considered adequate.

Considering the hypotheses, Hypothesis 2 aimed to measure whether consumers with awareness of CSI activities had a greater positive attitude towards reputation as well as whether the awareness of the CSI activities led to greater trust in the brand. Ultimately, the hypothesis aimed to determine whether the awareness led to greater loyalty towards the brand. To measure awareness of CSI activities, five questions were asked relating to the consumer's awareness of the bank assisting schools by providing funding, assisting in job creation, providing bursaries to assist children, providing sponsorships for sporting events and, finally, relating to the bank's assisting the

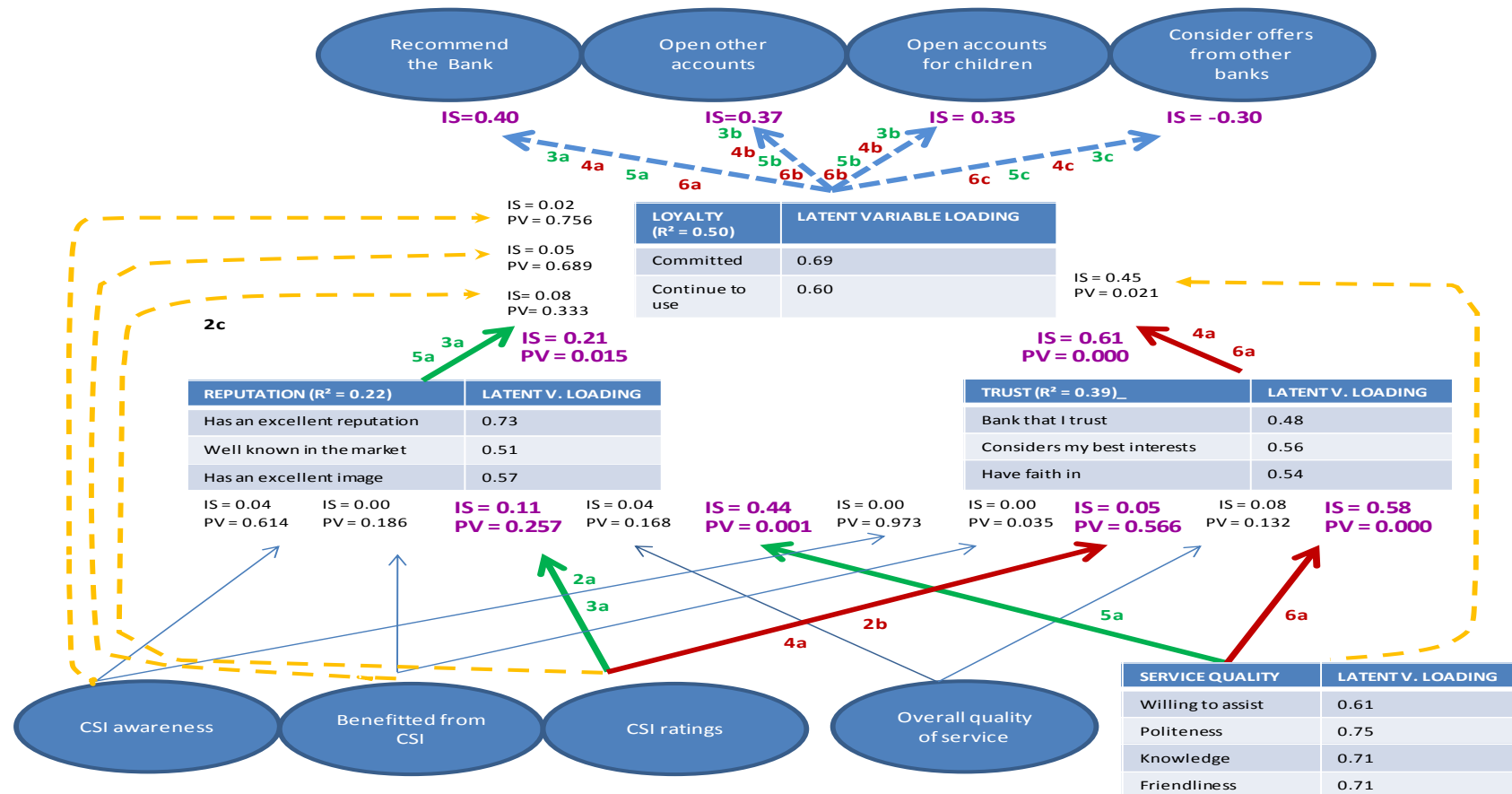
community. Once the respondents indicated that they were aware of the activity, they were then asked to rate the activity on a scale from one to five with one being poor and five being excellent. Hence the data reflected only those respondents who were aware of CSI activities.

Hypotheses 3 and 4 explored the impact of CSI on reputation and trust respectively and, in turn, their impact on loyalty. They ultimately considered whether it leads to customers recommending the bank, opening other accounts either for themselves or their children, and whether they would consider offers from other banks.

Hypotheses 5 and 6 looked at something similar but instead of assessing the impact of CSI, they studied the impact that service delivery had on the variables discussed above.

Figure 5.3 presents the results for the impact of the different variables on each other (beta value). The model also illustrates the latent variable loadings of service quality, trust, reputation and loyalty. The loading indicates the strength of that loading towards the overall impact (beta).

Figure 5.3: Path Model



IS = Impact scores  
PV = P values

#### 5.4.2.1 CSI RATINGS

Those consumers who were aware of CSI activities were asked to rate a number of activities on a scale of 1 – 5. As not all consumers were aware of every activity, there was a need in some instances to substitute a value for those who were not aware with some CSI activities with the mean value for those who were aware. If the original values were used, it would have skewed the results.

Irrespective of awareness levels of CSI activities, over 81% (consisting of those who agreed and strongly agreed) indicated that they would recommend their bank to friends, over 82% (consisting of those that agreed and strongly agreed) indicated that they would either open other accounts with the bank or open accounts for their children with the bank, and over 64% (consisting of those that disagreed and strongly disagreed) indicated that they would not consider offers from other banks if they were approached.

Looking at the model above and considering Hypothesis 2a – 2c, the results for the study are illustrated in Table 5.10.

**Table 5.10: Results for Hypotheses 2a – 2c**

Hypothesis	Impact	P values	Results
2a (Awareness Reputation) →	0.11	0.257	Not significant
2b (Awareness Trust) →	0.05	0.566	Not significant
2c (Awareness loyalty) →	0.08	0.333	Not significant

The results suggested that there was not sufficient evidence to reject the null hypothesis. There was therefore not enough evidence to conclude that awareness of CSI activities leads to a greater positive attitude towards reputation, greater trust in the brand or greater loyalty towards the brand.

Note, however, that according to Hair *et al.* (1998), 0.1 is regarded as a minimum impact from a predictor variable which produces any substantial effect on a dependent variable. Academically, however, the impact score of 0.11 shown in Table 5.10 is not significant due to the p value.

The study therefore fails to reject the null hypothesis for 2a, 2b and 2c.

#### **5.4.2.2 REPUTATION**

The results for the variable reputation are shown in Table 5.11. They confirmed that CSI does not have a significant impact on reputation but that service quality does indeed have a significant impact. The impact of service quality is four times that of reputation.

**Table 5.11: Impact on reputation**

Impact of	Impact	P Value	Result
CSI → reputation	0.11	0.257	Not significant
Service quality → reputation	0.44	0.001	Significant

#### **5.4.2.3 TRUST**

The majority of the respondents (93.6%) agreed that they could trust their bank, with males displaying a slightly higher level of trust than their female counterparts.

The results relevant to trust indicated that CSI does not have a significant impact on trust but that service quality has a highly significant impact on trust – it has a five times greater impact than CSI as illustrated in Table 5.12.

**Table 5.12: Impact on trust and service quality**

Impact of	Impact	P Value	Result
CSI → trust	0.05	0.566	Not significant
Service quality → trust	0.58	0.000	Significant

#### 5.4.2.4 LOYALTY

Table 5.13 shows how the various variables impacted on loyalty. The results confirmed that the variables of reputation and trust have a significant impact on loyalty, with trust having a three times greater impact than reputation. The remaining variables, which measure their direct impact on loyalty, illustrated that their impact is not significant.

**Table 5.13: Impact on loyalty**

Impact of	Impact	P-Value	Result
CSI Awareness → loyalty	0.02	0.756	Not significant
Benefitted from CSI → loyalty	0.05	0.689	Not significant
CSI Ratings → loyalty	0.08	0.333	Not significant
Overall quality of service → loyalty	0.06	0.132	Not significant
Service quality → loyalty	0.45	0.021	Significant
Reputation → loyalty	0.21	0.015	Significant
Trust → loyalty	0.61	0.000	Significant

These results were unpacked further to determine what the relationship was between loyalty and customers' willingness to recommend, to purchase other products either for themselves or for their children, and finally to consider whether loyalty led to customers not considering offers from other banks. These results are represented in



Table 5.14. The results confirmed that significant relationships exist between loyalty and the variables mentioned above.

**Table 5.14: Correlation between loyalty and other variables**

		Loyalty	Recommend	Open another account- Pers	Open account for children	Consider other offers
Loyalty	Pearson correlation	1	**0.398	**0.369	**0.345	**-.0296
	Sig. (2 tailed)		0.000	0.000	0.000	0.000
	N	201	201	201	201	201
Recommend	Pearson correlation	**0.398	1	**0.466	**0.327	**-.0246
	Sig. (2 tailed)	0.000		0.000	0.000	0.000
	N	201	202	202	202	202
Open another account- Pers	Pearson correlation	**0.369	**0.466	1	**0.455	**-.0354
	Sig. (2 tailed)	0.000	0.000		0.000	0.000
	N	201	202	202	202	202
Open account for children	Pearson correlation	**0.345	**0.327	**0.455	1	**-.0319
	Sig. (2 tailed)	0.000	0.000	0.000		0.000
	N	201	202	202	202	202
Consider other offers	Pearson correlation	**-.0296	**-.0246	**-.0354	**0.319	1
	Sig. (2 tailed)	0.000	0.000	0.000	0.000	
	N	201	202	202	202	202
** Correlation is significant at the 0.02 level (2-tailed)						

The discussion above relating to trust, reputation and loyalty is relevant to determine whether to reject or fail to reject the null hypotheses for 3 – 6. Specifically for

Hypotheses 3 and 4 the results confirmed that CSI does not have a significant impact on reputation and trust, although reputation and trust have a significant impact on loyalty. As a result, the study fails to reject the null hypotheses 3a, 3b, 3c, 4a, 4b and 4c.

Considering Hypotheses 5 and 6, the results confirmed that service quality has a significant impact on both reputation and trust (Table 5.15 and Table 5.16). Table 5.17 in turn shows the impact of reputation and trust on loyalty which is also significant. Finally, Table 5.18 confirms a significant correlation between the variables of loyalty and customers' willingness to recommend, to open other accounts and not to consider offers from other banks. This therefore allows the study to reject the null hypotheses for 5a, 5b, 5c, 6a, 6b and 6c.

## 5.5 CONCLUSION

To summarise, this study had six hypotheses and, based on the results, the conclusions reached are shown in Table 5.19.

**Table 5.19 Conclusions of the study**

HYPOTHESIS	REJECT OR FAIL TO REJECT
1. Consumers are aware of CSI activities	Reject
2a. Those consumers who are aware of CSI activities have greater positive attitudes towards corporate reputation.	Fail to Reject
2b. Those consumers who are aware of CSI activities have greater trust in the brand	Fail to Reject
2c. Those consumers who are aware of CSI activities display greater loyalty towards the brand	Fail to Reject
3a. CSI has an impact on reputation which in turn affects loyalty and leads to increased customer recommendation of the CSI brand to others	Fail to Reject
3b. CSI has an impact on reputation which in turn affects loyalty and leads to greater customer repeated purchase	Fail to reject
3c. CSI has an impact on reputation which in turn affects loyalty and leads to decreased customer consideration of other offers.	Fail to reject
4a. CSI has an impact on trust which in turn affects loyalty and leads to increased customer recommendation of the CSI brand to others	Fail to Reject
4b. CSI has an impact on trust which in turn affects loyalty and leads to greater customer repeated purchase	Fail to Reject
4c. CSI has an impact on trust which in turn affects loyalty and leads to decreased customer consideration of other offers.	Fail to Reject
5a. Service delivery has an impact on reputation which in turn affects loyalty and leads to increased customer recommendation of the CSI brand to others	Reject
5b. Service delivery has an impact on reputation which in turn affects loyalty and leads to greater customer repeated purchase	Reject
5c. Service delivery has an impact on reputation which in turn affects loyalty and leads to decreased customer consideration of other offers.	Reject
6a. Service delivery has an impact on trust which in turn affects loyalty and leads to increased customer recommendation of the CSI brand to others	Reject
6b. Service delivery has an impact on trust which in turn affects loyalty and leads to greater customer repeated purchase	Reject
6c. Service delivery has an impact on trust which in turn affects loyalty and leads to decreased customer consideration of other offers.	Reject

## CHAPTER 6: DISCUSSION OF RESULTS

### 6.1 INTRODUCTION

This chapter discusses the results that were presented in Chapter 5 with a view to determining whether CSI leads to loyalty at the bottom of the pyramid. In answering this six hypotheses were developed. In discussing the results, this paper considers each hypothesis in turn.

### 6.2 DISCUSSION

#### 6.2.1 HYPOTHESIS 1

Hypothesis 1 dealt with whether or not consumers are aware of CSI activities undertaken by their bank. The findings illustrated that the majority of the consumers (65%) were aware of *some* of the CSI activities undertaken. Some activities such as sponsorship of sporting events rated much higher (57%) from an awareness perspective. This is probably due to the visibility of the sponsorship for these types of CSI activities compared to others. However, nearly half of respondents were unaware of even sponsorship and direct benefits scored even lower in awareness. According to Sen *et al.* (2006) and Pfau *et al.* (2008), awareness of CSI activities is crucial in developing more positive company-related associations, and has the ability to enhance people's perceptions of the image, reputation and credibility of the organisation.

In unpacking the remainder of the results, reference to awareness levels must be considered to evaluate what impact, if any, it has on the outcomes. Consideration must also be given to the type of CSI activity and to what extent that influenced the final results.

### **6.2.2 HYPOTHESES 2 TO 4**

Hypothesis 2 dealt with whether consumers who were aware of CSI activities had a greater positive attitude towards corporate reputation, had greater trust in the brand and, finally, whether they displayed greater loyalty towards the brand. Hypothesis 3 dealt with the impact of CSI on reputation and its subsequent impact on loyalty and the customer's behavioural responses in the form of recommending the CSI brand to others, increased purchases as well as decreased customer consideration of other offers. Hypothesis 4 dealt with CSI's impact on trust and its subsequent impact on loyalty and the customer's behavioural responses in the form of recommending the CSI brand to others, increased purchases as well as decreased customer consideration of other offers. In discussing the relevant results an overview of CSI is required.

#### **6.2.2.1 CSI**

The results indicated that even for those consumers who are aware of CSI activities, the direct impact on loyalty is not significant with an impact score of 0.08 and a p value of 0.333. As consumers have not personally benefited from the CSI activity, it is likely that this affected the non-significant impact on loyalty (Pomering and Dolnicar, 2006).

Furthermore, considering the findings by Coulter and Coulter (2002), when a relationship is still new, customers place greater emphasis on elements such as empathy and politeness. This study focused on consumers at the BoP who are less likely to have had an opportunity to build a relationship. This probably accounts for why the results did not show as great an impact on loyalty.

Interestingly, the study also found that irrespective of awareness levels of CSI activities, over 81% of respondents indicated that they would recommend their bank to friends, over 82% indicated that they would open accounts for either themselves or their children, and over 64% indicated they would not consider offers from other banks if they were approached. This suggested that there is another factor that drives the decisions that customers make and, based on the results, service quality can be considered to be that factor.

Considering CSI's impact on reputation, the study found that although CSI awareness has a slight impact on reputation (0.11), it is still in the academic sense not significant. It is possible that CSI has no direct impact on loyalty as its impact is indirect via the brand. When it came to the element of trust, being aware of CSI activities had a non-significant impact on trust. The impact level was 0.05 with a p value of 0.566.

#### **6.2.2.2 HYPOTHESIS 2**

The literature as well as the evidence suggested that CSI has an influence on image, reputation and credibility with little or no discussion of CSI's impact on trust.

This negates the findings by both Fombrun and Shanley (1990) as well as Branco and Rodrigues (2008). There are two possible explanations for this. Firstly, as suggested by Harrison (1994), a consumer's demographics and social and economic standing have the ability to influence the result and, secondly, consideration must be given to Pomeroy and Dolnicar's view as discussed above.

Hypotheses 3 and 4 dealt with CSI's impact on loyalty through its impact on reputation and trust. Although no direct impact could be proven, the next two sections will show the indirect impact of CSI on loyalty.

#### **6.2.2.3 HYPOTHESIS 3**

As indicated in the discussion on Hypothesis 2, CSI has little impact on reputation. The element of reputation, however, has a significant impact on loyalty and, in turn, on the behaviour of the consumer. The implication of this is that although CSI may not have a significant impact on reputation, reputation itself is an important component of loyalty and so companies need to ensure that they undertake activities that have the ability to enhance their reputation. If companies want to benefit from this, they would need to design CSI activities to gain maximum impact from this.

Delving deeper into the behavioural responses of consumers, the results indicated that the greatest impact of loyalty is on recommending the bank to others at 0.40, followed by opening other accounts at 0.37, opening accounts for children at 0.35 and not considering offers from other banks at 0.30, thereby not showing spurious loyalty (Lewis and Soureli, 2006). This supports the definition of loyalty as put forward by Oliver (1999), and supports the findings by Bowen and Chen (2001) and Szüts and Tóth (2008). The findings therefore confirmed that the result of loyalty is that it is likely to lead to consumers recommending the bank to others, opening accounts for themselves and their family members, and not considering offers from other banks.

Considering that this study was conducted at the bottom of the pyramid and consumers at this level place a huge emphasis on social capital (Woolcock and Narayan, 2000), companies need to take cognisance of the powerful impact that this segment can have on word-of-mouth referrals. The sheer size of this market also means that companies will be able to gain much more market share if they are able to create more loyal customers.

#### **6.2.2.4 HYPOTHESIS 4**

This hypothesis dealt with CSI's impact on trust, its subsequent impact on loyalty and the customer's behavioural responses in the form of recommending the CSI brand to others, increased purchases as well as decreased customer consideration of other offers.



The research showed that CSI has no impact on trust. Considering the powerful impact that trust has on loyalty (0.61), companies would be wise to look at what other elements they can use to build trust and to invest resources into building trusting relationships with their customers.

Also in considering the findings, cognisance must be taken of the market that was studied and the implications that this had for the results. From the findings of O'Loughlin and Szmigin (2006), we know that consumers in the lower income category have mainly a transactional relationship with their bank. They therefore do not have an opportunity to build long-lasting relationships as they interact on a specific transaction and are less likely to visit the bank often. At the same time we know that according to research by Woolcock and Narayan (2000), consumers at the BoP have a desire to build trusting relationships.

The implication of this is that companies have to find ways to build trusting relationships in every single encounter that they have with customers, even if it is just on a specific transaction. Furthermore, it must be recognised that CSI may be the first and sometimes main means for customers at the BoP to encounter the brand. Hence brand awareness is critical to drive loyalty at the BoP.

### **6.2.3 HYPOTHESES 5 AND 6**

Hypothesis 5 dealt with the impact that service delivery has on reputation, its impact on loyalty and subsequent consumer behaviours such as recommending the CSI brand to others, increased purchases as well as decreased consideration of other offers. Hypothesis 6 dealt with the impact that service delivery has on trust and its resulting impact on loyalty. In discussing the results an overview of the results for service quality is required.

#### **6.2.3.1 SERVICE QUALITY**

Service quality has a significant impact on both reputation and trust. Service quality's impact on reputation is four times the impact of CSI (0.44 versus 0.11) and service quality's impact on trust is five times that of CSI (0.58 versus 0.05). Again, considering the argument by Pomeroy and Dolnicar (2006), this can be attributed to consumers wanting initiatives that benefited themselves rather than the broader community. The questions that related to the overall quality of service provided seemed to satisfy the "personal benefit" element that consumers want. The findings also appeared to confirm the research by Parasuraman *et al.* (1988) of service quality being a function of the willingness of staff to assist and their politeness, knowledge and friendliness. The results showed that politeness has the biggest impact, followed very closely by the knowledge of staff and their friendliness.

#### **6.2.3.2 HYPOTHESES 5 AND 6**

The findings by Branco and Rodriques (2008) suggested that CSI has the ability to improve the image of the organisation and in turn its reputation. The findings of this research suggested that the quality of service rendered has an even greater impact on consumers' perception of the company and specifically results in greater trust and consumers perceiving the company to have a better reputation. Furthermore, this study has proven Lewis and Soureli's finding (2006) that service quality can significantly influence bank loyalty. In this instance it had a direct impact of 0.45 compared to CSI that only had a 0.08 impact. This has massive implications for companies that are spending millions on CSI initiatives. Perhaps expenditure beyond the regulatory requirements must be reconsidered and greater emphasis and funding must be provided to ensure that customers experience a superior quality of service.

#### **6.2.4 SUMMARY**

The findings of this study confirmed that awareness levels of CSI activities do not make a significant difference to perceptions of loyalty. Even in instances where CSI awareness was low, customers were willing to recommend. Implications of this are that although CSI may lead to loyalty it is not a primary driver of loyalty. Based on some of the literature, it is plausible to suggest that CSI influences brand beliefs and in turn loyalty, while service quality has a more direct and immediately apparent effect on loyalty. The implication of this for companies is that even though they may invest substantial funds in CSI activities, they need to ensure at the same time that the hygiene factors such as quality of service provided are also excellent.

## **CHAPTER 7: CONCLUSIONS**

### **7.1 KEY FINDINGS**

The findings suggested that CSI has no direct, significant impact on loyalty for consumers at the BoP. Consumers at the BoP want personal benefit and hence when companies engage in community-related initiatives, this does not lead to loyalty. At the same time, while consumers at the BoP have mainly transactional relationships with their banks, they simultaneously want and expect the quality of the service that they receive to be no different to other LSM groups. In fact, in most instances consumers at the BoP are only able to assess the company based on their limited interactions with the company. CSI, on the other hand, is seen to influence brand beliefs. Consumers derive their assessment of the company based on an overall assessment of the company. Hence although no direct impact on loyalty could be found, CSI does have a role to play in creating loyal customers.

### **7.2 RECOMMENDATIONS**

“Because the company is so integral to society, it is considered as much a citizen of a country as is a natural person who has citizenship. It is expected that the company will be and will be seen to be a responsible citizen. This involves social, environmental and economic issues – the triple context in which companies in fact operate. Boards should

no longer make decisions based only on the needs of the present because this may compromise the ability of future generations to meet their own needs” (King Code of Governance for South Africa, 2009, p. 11).

The South African landscape is changing rapidly as suggested by the above quote. Initially, companies’ CSI was attributed to the Code of Good Practice which was a voluntary scheme whereby companies could gain a maximum of three points for investing in CSI activities. Now with King III, the investment by companies in CSI is legislated and boards are requested to play a more active role in ensuring that their companies are responsible citizens.

With this changing landscape, the playing field is being levelled and the competitive advantage of the past that could be gained by CSI is quickly waning. Against this backdrop, companies would be wise to consider how they leverage their investment that goes beyond legal compliance.

This research focused specifically on whether CSI led to loyalty at the BoP and also considered the impact of service quality on loyalty. As the research suggested, service quality has a direct, positive impact on loyalty and in the short term will enable companies to attract customers. CSI, through its impact on brand, has the ability to ensure that the company is recognised and top of mind.

Based on the findings of this research however, if companies are wanting to target the BoP specifically, they would do well to ensure that they engage in activities that benefit individuals and not the community. Furthermore, awareness of company CSI activities besides sporting events would assist in improving recognition. Finally, while companies may engage in CSI activities and while benefits are gained, they cannot ignore the fact that getting the basics right, such as delivery of service, is crucial in creating loyalty.

### **7.3 IMPLICATIONS FOR FUTURE RESEARCH**

The research showed a weak relationship between CSI and loyalty specifically for banking customers at the bottom of the pyramid. Future research is recommended where the responses of consumers at higher LSMs as well as in other industries are considered. This study was also confined to Soweto and could be expanded in other geographical regions. Taking the advice of Pomering and Dolnicar (2006) as well, research needs to be undertaken that focuses only on activities that benefit individuals and not the community to determine if this then has a significant impact on loyalty.

As suggested by McDonald and Rundle-Thiele (2008) and as discovered by this research, there is a need to conduct comparative studies to identify consumer-preferred CSI activities as this is likely to influence the loyalty of consumers and may see consumers seeing more personal benefit as suggested by Pomering and Dolnicar (2006).

#### **7.4 LIMITATIONS OF THE RESEARCH**

Due to time and budgetary considerations, this study only focused on respondents in the Gauteng region and therefore results are not generalisable across South Africa. Similarly, with the application of a quota and judgmental sample, the results are not generalisable to other populations.

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## APPENDIX A: THE CSI ACTIVITIES OF FOUR RETAIL BANKS

### Absa ([www.absa.co.za](http://www.absa.co.za))

- **Education:** Mathematics, Science and Technology and Early Childhood Development: The Beyers Naude Schools Development Programme and the Absa/Sowetan Early Childhood Development Awards
- **Entrepreneurship:** Job creation, skills development and survivalist projects: Funding provided for skills training, start-up capital and/or equipment as well as mentorship and after-care
- **Health:**
  - HIV/Aids education, awareness, home-based care, assistance to orphans and vulnerable children and associated income-generating projects: The Cancer Association of South Africa and Walter Sisulu Paediatric Centre for Africa
  - Disability: Casual Day initiative and Thabo Mbeki Development Trust
- **Employee community involvement:** The matching fund, Give as you earn and Reashoma
- **Group-wide community initiatives:** Business unit specific initiatives: Absa Sesego Cares, Absa Home Loans project Vuka, Absa Retail Bank's Bright Futures and Personal Bank's Talk Together project
- **Environment:** The Peace Parks Foundation, World Wildlife Fund, The Department of Environmental Affairs and Tourism, The Department of Water Affairs and Forestry

- **Heritage, Arts and Culture:** Absa Gallery

#### **FNB** ([www.fnb.co.za](http://www.fnb.co.za))

- **Sponsorships:**
  - **Nation building:** 2010 FIFA World Cup, u/17 National Football Team, FNB Dance Umbrella, Heartlines, Homecoming Revolution, Kaelo, SA – The good news
  - **Relationship building:** FNB Whisky Live Festival, Paarl Cultivaria, schools and university rugby sponsorships, schools soccer sponsorships, Johannesburg Arts Fair, school debating
- **CSI:**
  - **FirstRand Fund:** Education, job creation, skills development, primary healthcare, arts and culture, environment, community care
  - **FNB Fund:** Education: Bursaries, Maths and Science, hospice, early childhood development, community care
  - **FNB volunteers:** Food relief during tough times, Interbank, Risk and Compliance empowers community and brings warmth to community

#### **Nedbank** ([www.nedbank.co.za](http://www.nedbank.co.za))

- **Affinities:** Nelson Mandela Children’s Fund, The Sports Trust Nedbank Arts Affinity, Nedbank Green Affinity

- **CSI: The Nedbank Foundation**
  - **Education:** Readathon, Eyethu Community Trust, Technology Research Action Centre, Phumolong Secondary School, bursaries, Thuthuka Bursary Fund
  - **Community development:** Thokomala Orphan Care, South Coast Hospice Association, Sun City Housing project, Making a difference trust
  - **Economic development:** The Hope Factory, Furniture Technology Centre, Intsika Beneficiation Project, Nedbank Youth Centre
  - **Staff volunteerism:** Team Challenge, Local Hero Programme, Payroll Giving, Angel Tree, Deep Green Day
  - **Cause-related marketing:** Shavathon, Making heroes of our clients
- **Sponsorships:** Road running, sport for the disabled, Gold: The Nedbank Challenge

**Standard Bank (South Africa only)** ([www.standardbank.co.za](http://www.standardbank.co.za))

- **Employee community involvement:** Individual or group donations, Rally to Read, CHOC
- **CSI**
  - **Education:** Mindset Network, Learning Channel, Marang Centre for Maths and Science at Wits
  - **Health and Wellness:** HIV/Aids Programme: City Mission
  - **Entrepreneurship**



## APPENDIX B: QUESTIONNAIRE

Good day, my name is ... from ... an independent market research company. We are conducting research on behalf of a student at the Gordon Institute of Business Science regarding financial services and what impact banks involvement with the communities has on loyalty. For example, they give money to schools, provide sponsorships for certain sporting activities or for underprivileged children, or sponsor environmental programmes. The interview will take approximately 30 minutes of your time. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all your responses will be kept completely confidential.

**By completing the survey you indicate that you voluntarily participate in this research. If you wish to opt out of participating, please advise us.**

If you have any concerns, please contact me or my supervisor. Our details are provided below:

**Researcher name**

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082 330 8759

## Questions

1. Record gender

Male	Female
01	02
<b>Check quotas</b>	

2. Which is your home language – the language you speak most frequently at home? Is it ...

English	Afrikaans	Zulu	Xhosa	Sotho	Other(specify)	Refused
01	02	03	04	05	06	07

3. Record race

Black	Coloured/Indian/Asian	White
01	02	03
<b>Continue and check quotas</b>	<b>Close interview</b>	<b>Close interview</b>

4. Please could you tell me in which of the following categories your age falls? Are you ...

18-30	31-44	45+	Refused
01	02	03	04

5. Which is your main bank, i.e. the one you have an account with/use most often?

<b>Banks</b>	
Absa	01
FNB	02
Nedbank	03
Standard Bank	04
<b>Check quotas</b>	

6. Which of the following activities are you aware of in your bank (bank named in Q5) and how would you rate these activities on a scale of 1 – 5, where 1 is poor and 5 is excellent. Please also indicate if you have benefited from these activities. **INTERVIEWER NOTE: CHECK QUOTA ON “AWARE OF” COMPONENT.**

Activities	Aware of		Benefited		Rating of activity				
	Yes	No	Yes	No	1 Poor	2	3	4	5 Excellent
a. Assisting schools by providing funding									
b. Assisting in job creation									
c. Providing bursaries to assist children in need									
d. Providing sponsorships for sporting events that benefit the nation									
e. Assisting the community									

7. Please could you tell me in which of the following categories your personal monthly income falls?

R1-R 500	R500 - R999	R1 000 - R1 499	R1 500 – R1 999	R2 000 - R2 499	R2 499 - R2999	R3 000 +	Refused
R01	02	03	04	05	06	07	08
						Close interview	Close interview

The next section is about <<bank name in Q5>>, the bank you said you have an account with / bank you use most often.

8. I am going to read a few statements and as I read each statement, please tell me to what extent you agree or disagree with each statement by using the numbers from 1 – 5, where 1 = strongly disagree and 5 = strongly agree. You may choose any number you want. **INTERVIEWER NOTE: ROTATE ORDER OF QUESTIONS**

	1 Strongly disagree	2	3	4	5 Strongly agree
a. <<Bank name - Q5>> has an excellent reputation.					
b. <<Bank name - Q5>> is a bank that I trust.					
c. <<Bank name - Q5>> has an excellent image in the market.					
d. <<Bank name - Q5>> is a bank that considers my best interests.					
e. <<Bank name - Q5>> is					



	well known in the market.					
f.	I have faith in <<Bank name - Q5>>.					
g.	<<Bank name - Q5>> is a bank I am committed to.					
h.	<<Bank name - Q5>> is a bank I will continue to use in the next year.					
i.	<<Bank name - Q5>> is a bank I will recommend to friends, colleagues and family.					
j.	<<Bank name - Q5>> is a bank I would open other accounts with e.g. business accounts.					
k.	<<Bank name - Q5>> is a bank where I would open accounts for my children.					
l.	I will consider offers from other banks if they approach me.					

9. Now, I want you to think about the service that <<bank name - Q5>> gives you. As I read each statement, please tell me how you would rate these services, again using numbers from 1 – 5, where 1 = poor and 5 = excellent. You may choose any number that you want.

	1 Poor	2	3	4	5 Excellent
9.1 The overall quality of service					
9.2 Willingness by staff to assist					
9.3 Politeness of staff					
9.4 Knowledge of staff					
9.5 Friendliness of staff					

**THANK RESPONDENT AND CLOSE INTERVIEW**