Exploring customer loyalty at bottom of the pyramid in South Asia

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Abstract

Purpose – The purpose of this paper is to provide insights into the under-researched area of social responsibility of small scale individual entrepreneurs (SIEs) and how that impacts on customer loyalty at the bottom of the pyramid (BoP) in the context of South Asia.

Design/methodology/approach – Drawing from the literature, the paper expands and builds on the previous work of Azmat and Samarutunge on SIEs and develops a set of propositions that provide insights into the probable link between customer awareness, responsible business practices of SIEs and customer loyalty at the BoP level.

Findings – Findings highlight the uniqueness of SIEs, BoP customers and the contextual variables in developing countries. The authors further contribute to knowledge by developing the concept of blind customer loyalty, where SIEs are likely to experience customer loyalty regardless of being socially responsible.

Research limitations/implications – Given the limited literature on the social responsibility practices of SIEs, this paper makes a significant contribution to two different but important inter-related discourses on SIEs and their adoption of socially responsible practices, as well as to the BoP literature.

Practical implications – The paper concludes by outlining the implications for SIEs, policy-makers, and practitioners, advancing the agenda of social responsibility for future research in the fields of both the BoP and SIEs.

Originality/value – Given their unique characteristics and realities, SIEs in developing countries are involved with customers at the BoP on a day-to-day basis. However, there is a significant knowledge gap in the literature on their social responsibility and customer loyalty. This paper is the first of this kind to address and link this critical issue.

Keywords Bottom of the pyramid, Customer loyalty, Small scale individual entrepreneurs, Social responsibility, South Asia

Paper type Research paper

Introduction

In the wake of globalisation, increased competition and rising customer awareness, two of the important assets of a company in today’s market are its brand reputation and customer loyalty. Companies worldwide are facing the challenge of building customer loyalty to enhance customer retention which is critical for business success. To survive the competition, Corporate Social Responsibility (CSR) has emerged as a powerful marketing tool (EUCAM, 2009) and a source of competitive advantage for companies who are adopting socially responsible business practices (Porter and Kramer, 2006; Pearce, 2003).

The role of CSR in the twenty-first century is “a story of progressive business sensitization to systems and dynamics of governance beyond government, regulation beyond law, and responsiveness beyond responsibility” (Horrigan, 2007, p. 85). The popularity of CSR has not only spread into all developed countries, CSR initiatives are also emerging in developing countries (Carroll and Shabana, 2010) including those in the South Asian region (Warnakulasooriya, 2010).

This paper focuses on South Asian region which comprises of India, Pakistan, Bangladesh, Sri Lanka, Maldives and Nepal. South Asian region is chosen for this study in particular as the countries in this region, despite their impressive growth, have a large population of poor people who lie at the bottom of the economic pyramid and are mainly catered for by SIEs. The South Asian region has attracted increased interest in the twenty-first century as having “one of the fastest-growing economies in the world” (Sachs, 2009, p. 42) with a high average GDP growth rate of 8.8 per cent from 2003-2008 (Ghani and Ahmed, 2009). Consequently, South Asia as a region presents a vast and untapped opportunity with a rapidly growing middle-class population who have become customers of all varieties of sophisticated and state of the art goods (Rashid, 2005). Despite the high economic growth rates in the region, it is however argued that the total number of poor people has increased.
In fact, the number of people living on less than US$1.25 a day increased from 549 million in 1981 to 595 million in 2005 (Ravallion et al., 2009). The region also has unique characteristics which include wide income disparities as a result of the imbalance in economic development across different regions within South Asia (Pack, 2009), confrontational politics (Samaratunge et al., 2008), poverty (UN, 2009) and natural disasters (Samaratunge and Coghill, 2010). Despite these facts, the image of South Asia has been growing in the twenty-first century as a hub of labour-intensive manufacturers and service centres.

CSR practices vary significantly across companies in the South Asian region. For instance, some large companies in South Asia, very few in numbers though, have created a positive image of themselves as being socially responsible; however, this is not necessarily the case for small and medium-sized enterprises (SMEs), and for small scale individual entrepreneurs (SIEs) which form a large proportion of businesses in South Asia. The SIEs are mostly sole-traders or have a maximum of five employees, yet, they constitute a significant proportion of the businesses in the South Asian countries (Azmat and Samaratunge, 2009). Due to their nature and characteristics, the SIEs have a unique customer base as they mainly cater to customers at the Bottom of the Pyramid (BoP). These businesses play a vital role in employment creation, poverty reduction, and promotion of sustainable economic growth (Azmat, 2008; Arinaitwe, 2006; ILO, 2002; Moore and Spence, 2006), but limited research has been done on their social responsibility practices (Azmat and Samaratunge, 2009). While social responsibility has emerged as a tool for businesses to become competitive in developed countries by helping them to retain their customers, no systematic research to date has been conducted to investigate whether being socially responsible helps small businesses like SIEs to retain their customers.

The BoP comprises of three broad segments based on the income levels (Rangan et al., 2011) labelled as low income, subsistence and extreme poor. The top segment has received most academic attention due to their relative buying power compared to the other two segments that fight for survival and have little or no money to spend on non-essential products and services. The bottom two segments are relatively neglected in the mainstream BoP discourse. This is despite growing evidences of irresponsible business practices being adopted by SIEs and SMEs, in the South Asian region ignoring customer rights and taking advantage of the vulnerability of the BoP customers (Reporter, 2009; Dayaratna-Banda, 2007; Rashmi, 2003). The study aims to fill the void in the literature by focusing on the under-researched segments at the lower end of the BoP to gain insights into the level of awareness of their rights, their expectation from businesses and customer loyalty. In doing so, it links the discourse on social responsibility of SIEs with customer loyalty at the BoP level, based on theoretical evidence and review of available research on the topic. More specifically, it builds on the previous work of Azmat and Samaratunge (2009) on SIEs to answer the following research questions:

RQ1. Is there a link between the level of customer awareness of their rights at the BoP level and adoption of socially responsible (SR) practices by SIEs?
RQ2. Does social responsibility or being socially responsible promote customer loyalty of SIEs at the BoP level?

We start the paper by discussing the key concepts of BoP and SIEs in developing countries of South Asia, identifying their unique characteristics and how they differ from their counterparts in developed countries. This is followed by a brief discussion of customer awareness and customer loyalty in the context of BoP in developing countries and why and how they are different from developed countries. Next, we examine the current state of social responsibility (SR) of SIEs in dealing with the BoP in the context of South Asia. Based on the existing literature, we then come up with a set of propositions specifying the probable link between customer awareness, adoption of SR practices by SIEs, and customer loyalty in the context of South Asia. The paper concludes with a discussion on the findings and implications for SIEs, policy-makers and practitioners, advancing the agenda of social responsibility for future research in the fields of both the BoP and SIEs.

**The bottom of the pyramid (BoP)**

The bottom of the pyramid is a term that “represents the poor at the base of the global socio-economic ladder, who primarily transact in an informal market economy” (London, 2007, p. 11). The BoP includes around four billion low-income people (Rangan et al., 2011), that is, the majority of the world’s population, who survive on incomes below US$3,000 per year in local purchasing power, or roughly US$8 per person per day (WEF, 2009). The BoP is emerging as an important market despite the fact that their income is less than US$3.35 a day in Brazil, US$2.11 in China, US$1.89 in Ghana, and US$1.56 in India. Yet, as one market, they have substantial purchasing power, constituting a US$5 trillion global customer market (WRI, 2007) which
businesses cannot afford to ignore. According to WRI (2007, p. 9), “Asia (including the Middle East) has by far the largest BoP market – 2.86 billion people with a total estimated income of US$3.47 trillion. The BoP market represents 83 per cent of the region’s population and 42 per cent of its purchasing power – which is a significant share of Asia’s rapidly-growing customer market (WRI, 2007). According to the BoP proposition, the poor who lie at the bottom of the economic pyramid are potential customers and present a vast, untapped and unexploited opportunity (Karnani, 2009).

The BoP market, up until the last two decades, was the domain of the state and relied on different government interventions and welfare policies. However, the focus has changed significantly with the emphasis on minimal state intervention and the emergence of Multinational Corporations (MNCs) in developing countries. More recently, the BoP proposition has presented an enticing business case for MNCs where they can simultaneously make money and also curtail poverty tapping the vast BoP markets by designing and developing customised products (Jaiswal, 2008). Prahalad and Hart (2002, p. 14), in their seminal work, argue that “pursuing strategies for the bottom of the pyramid dissolves the conflict between proponents of free trade and global capitalism on the one hand, and environmental and social sustainability on the other.” Accordingly, the BoP represents the largest potential market for businesses to pursue their goals.

The BoP proposition, however, has met with controversy (Karnani, 2011) as there are counter-arguments that targeting the poor “as a market might cause them to wastefully spend part of their already meagre income on low priority products and services” (Clay, 2005, cited in Karnani, 2009, p. 2). One missing component of the BoP proposition is that it focuses only on large corporations rather than SIEs who have transactions with the BoP on a regular basis. While the BoP proposition has attracted a lot of attention (Karnani, 2011), much emphasis has been placed on who is in the BoP (Hammond et al. 2007), and how, BoP ventures need new market-entry strategies, and to explore further business development (Hart and London, 2005). However, the BoP literature lacks a focus on SIEs who are involved in transactions with the BoP, an area which this study aims to address.

As mentioned earlier, the BoP can be divided into three income segments (WEF, 2009). The top segment comprises around 1.4 billion people whose incomes are relatively low and tend to fluctuate, yet, they have sufficient disposable income to buy non-essential products in addition to basic goods and services. The middle segment is the largest group, with approximately 1.6 billion people. While they are generally able to cover their basic needs, they have little discretionary spending. The lowest level consists of approximately 1 billion people who live below the poverty line and are the poorest of the poor struggling to make ends meet (WEF, 2009). Research indicates that of the three segments, businesses find it easiest to engage with the top segment as they have surplus income to spend on non-essential goods. Due to their vast numbers, engaging with the other two segments is important for equitable economic growth, however, these segments have received little attention from businesses (WEF, 2009), nor have studies been done so far on customer loyalty at the lower end of the BoP. In this paper we focus on the lower end of the BoP population, or the “poorest of the poor”, as they interact with SIEs either as customers or as producers. SIEs operate in the informal economy and their client base is mostly customers at the lower end of the BoP. Consequently, it is safe to equate SIEs with BoP ventures, which can either involve BoP-as-customers or BoP-as-producers. In BoP-as-customer ventures, SIEs cater to the BoP customers, while in BoP-as-producer ventures, SIEs are involved in selling BoP-produced goods or services such as honey, vegetables, handicrafts etc. (London, 2007).

The unique characteristics of the BoP in South Asia
The customers who lie at the lower end of the BoP in the region of South Asia are unique. They are poor, illiterate or semi-literate, lack education, access to information, and are economically, culturally and socially deprived (Azmat and Samaratunge, 2009), all of which makes them very vulnerable (Karnani, 2009). Despite their unique individual realities, the BoP population in South Asia share some characteristics which are inter-related. First, they have a low socio-economic status due to their low incomes, and are highly dependent on informal or subsistence livelihoods (WEF, 2009; WRI, 2007). They also have low levels of education and awareness of their rights which make them, more vulnerable. As a result, they are often likely to pay high prices for substandard products or services (WEF, 2009). The BoP population is rural-based as they are dominated by the informal economy and are not integrated into the global market economy. Consequently, they have significant un-fulfilled needs as they are poorly served. Finally, they are also impacted by a BoP penalty as, in most situations, they pay higher prices for basic goods and services than other customers but often receive lower quality (WRI, 2007). It is also reported that as their income is frequently seasonal or
fluctuates over time and, in addition, they have limited access to credit or insurance (WEF, 2009, p. 5). These characteristics of BoP customers make them vulnerable and exposed to profit seeking attitudes of businesses.

**SIEs and their characteristics in developing countries of South Asia**

SIEs constitute around 90 per cent of businesses in South Asia, and play a vital role in employment creation, poverty alleviation and promotion of sustainable development (Kappel and Ishengoma, 2006). SIEs operate in the informal economy and are involved in transactions with the population at the BoP level, either as BoP-as-customers or BoP-as-producers.

SIEs in developing countries are different from their counterparts in developed countries. Rather than being driven by challenge, inheritance, and independence (Wacks, 2003), which is often the case in developed countries, SIEs in developing countries are forced to be entrepreneurs for their own survival (Azmat and Samaratunge, 2009). A number of reasons, such as market-oriented development approaches, reduction in welfarism, rapid urbanisation, increasing landlessness and unemployment, have been the major forces behind the large number of emerging SIEs in developing countries (Baruah, 2004). These changes have forced increasing numbers of people to be entrepreneurs as a means to survive.

In contrast to SMEs, SIEs generally are sole-owned or may have up to a maximum of five employees, are not registered, have no brand capital, have low public visibility and do not pay any taxes (Azmat and Samaratunge, 2009). In most cases, they come from a lower social class, have little education and, understandably, are driven by economic motives as they struggle to survive. Further, their small size, low public visibility and brand makes them isolated, neglected and abandoned with little or no social responsibility concerns. Also, as a result of their low level of education awareness, they are in most cases not aware of the importance of building a trusted relationship with customers (Azmat and Samaratunge, 2009) which also influences their (poor) business practices. It can therefore be argued that their unique characteristics encourage them to be involved in irresponsible business practices for economic reasons.

**Customer awareness, rights and loyalty at the BoP level**

The importance of the power of customers as one of the key external stakeholder groups, and their impact on the success of businesses, is now widely-accepted (Pomering and Dolnicar, 2009; Auger et al., 2003; Brown and Dacin, 1997). Maloni and Brown (2006, p. 35) further argue that “consumer criticism of perceived CSR deficiency can be extremely detrimental to corporate profitability and share”. The international trend of increased customer awareness forcing companies to adopt CSR practices is yet to filter into the developing countries of South Asia, where customer rights are often neglected and the number of businesses adopting responsible business practices remains low (Azmat and Samaratunge, 2009). In these countries, as Darley and Johnson (1993, p. 37) argue, “the marketplace has been a seller’s haven where customers have little or no protection, education, or information about the market” which significantly influences business practices. Azmat and Samaratunge (2009) also emphasise that businesses are less likely to behave in a socially responsible way if they are exposed to low levels of customer awareness about their rights and a lack of trust in customer-trader relationships.

Customer rights have been acknowledged since 1962 and have been adopted by many international customer organisations such as Customers International (USA), and extend into eight rights:

1. safety;
2. be informed;
3. choose;
4. be heard;
5. satisfaction of basic needs;
6. redress;
7. customer education; and
8. a healthy environment (Customers International, 2006).

The eight basic rights entitle the customer to receive goods and services of acceptable quality, on time and at an acceptable price. Customers also have the right to expect safe products, to be able to choose from a wide range of products, and to live and work in a healthy environment (Customers International, 2006).
Customer loyalty has been “viewed as a combination of customers’ favourable attitude and the repurchase behaviour” (Ali et al., 2010, p. 480). In particular, Oliver (1999, p. 34) explained it as “a deeply-held commitment to re-buy or re-patronize a preferred product/service consistently in the future”, which promotes a tendency of repetitive purchasing of the same brand. Customer loyalty leading to customer retention is critical for the success of any business, and the incorporation of responsible business practices paves the way for increased customer retention through enhanced customer loyalty and trust (Castaldo et al., 2008; Sagar and Singla, 2004). This important relationship is based on a customer’s deeply-rooted values and emotions (Oliver, 1999).

The relationship between CSR-related activities and customer loyalty has attracted increased attention, however, the findings remain inconclusive (Sen and Bhattacharya, 2001). For instance, researchers have examined the effects of CSR on customer loyalty (Sureshchandar et al., 2002; Maingnan and Ferrell, 2001) but there is no agreed conclusion on whether the relationship is positive or direct. Instead, some studies (McWilliams and Siegel, 2000; Mohr et al., 2001) suggest that CSR, in fact, has no effect on customer loyalty. However, the customer loyalty of customers at the end of the BoP in the context of the developing countries in South Asia is yet to be studied.

Studies have also revealed that the loyalty of customers is influenced by culture (Thompson et al., 2010). Based on empirical findings in China, the authors report that perceived value does not influence the brand loyalty of Chinese customers, and that collectivists are significantly more loyal to a brand than individualists, especially when quality and trust are at relatively low levels (Thompson et al., 2010). These findings might, to some extent, be applicable to South Asian customers, especially given the fact that their cultures, although very diverse and considerably influenced by the different religions, norms and practices dominant in the region, tend to be collectivistic rather than individualistic.

**Responsible entrepreneurship of SIEs at the BoP level**

The term CSR has continued to grow in importance and significance (Carroll and Shabana, 2010), and is increasingly being widely acknowledged as “a necessity for business” (Schreck, 2011, p. 167) and “essential for successful business operations” (Jamali and Mirshak, 2007). Businesses pursue CSR for a variety of reasons which include: long term self-interest, enhancing the societal environment, sustainability (Carroll and Shabana, 2010); defending reputation and avoiding scandals; cost and risk reduction (Zadek, 2000); winning support of the public and the consumers (Carroll and Shabana, 2010; Maloni and Brown, 2006); and seeking win-win outcomes through synergistic value creation (Zadek, 2000). Although the term CSR has evolved in the past few decades the two main school of thoughts lie between two extremes – CSR having an economic focus and ensuring only shareholder interest and the focus of CSR evolving to include a number of additional dimensions which emphasis on economic, legal, ethical and discretionary responsibilities (Carroll, 1979). As CSR as a concept is very broad, for the purpose of this study we use the definition of social responsibility as proposed by Campbell (2007) that has two main components. First, the businesses must not knowingly harm their stakeholders such as investors, employees, customers, suppliers or the local community. Second, if they cause harm to their stakeholders, they must then rectify it whenever the harm is brought to their attention either voluntarily or in response to normative pressure, legal requirements or some sort of encouragement.

Recent literature reports that there is considerable differentiation in CSR practices between large companies and SMEs, as the latter are “heterogeneous, having qualities, pertaining to size, resources, management style and personal relationships” which make it difficult for them to adopt large firm practices (Williamson et al., 2006: 317). This argument is further supported by Murillo and Lozano (2006, p. 237) who point out that the term CSR is problematic and needs to “be replaced with a concept closer to SMEs specific reality”. As a result, a new term – “responsible” entrepreneurship – has emerged in the CSR literature associated with small entrepreneurs (Fuller and Tian, 2006; Chapple and Moon, 2007). It usually refers to being responsible for one’s effect on others and taking responsibility for helping others in normal business practices as well as in adjunct or non-core activities (Fuller and Tian, 2006). Chapple and Moon (2007) view responsible entrepreneurs as those who make a significant contribution to society while doing well for themselves. As the SIEs are micro businesses with a maximum of five employees (Azmak and Samaratunge, 2009), in this study we use the term responsible entrepreneurship to refer to the CSR practices of SIEs.

Research findings constantly point to evidence that the concept of CSR is inherently context-specific and that national culture, namely, norms, practices, beliefs, religion, play an important part in influencing how
businesses/entrepreneurs behave (Dunning, 2005; Jenkins, 2006). CSR as a term and practice has been well researched and popular in developed countries however its awareness in Asia is rather low both in corporate and state level (Welford, 2004). Studies suggest that CSR in South Asia is not a new phenomenon, and that CSR or variants of it have existed for some time although they have differed in the nature of their actions and agendas. In South Asia, CSR is frequently equated with philanthropy, and the dominance of philanthropy can be attributed to different religions prominent in the region – Islam, Hinduism, and Buddhism. The involvement of businesses in philanthropy represents only a part of a socially-responsible company’s efforts to be stakeholder-focused. CSR, in fact, implies a much broader obligation than philanthropy alone (Jenkins, 2006). However, the existing practice of CSR in South Asia, has more of a philanthropic and voluntary nature than a systematic one. This is confirmed in the findings of Visser (2008) who argues that in developing countries social issues are generally given more political, economic, and media emphasis than environmental, ethical, or stakeholder issues; and there remains a strong emphasis on the philanthropic traditions focused on community development (Visser, 2008).

The nature of CSR in South Asia also varies greatly with the size of the company. In the South Asian context, the size of companies is a deciding factor in relation to CSR. While large companies are far more advanced in this agenda, this is not the case for SMEs and SIEs that form the bulk of the economy in the South Asian region (Azmat and Samarutunge, 2009). Large companies in India, namely Tata, Infosys and Birla, have led the way in CSR and have embedded socially-responsible business practices into their business strategy. In Bangladesh, big companies like Pran and the Grameen group of companies have started to pay increasing attention to CSR and are engaged in various activities to benefit the community. Sri Lanka, however, does not have large companies of local origin compared to its neighbouring countries. Nevertheless, companies like DSI (a footwear company) and Dilmah (a tea manufacturing and processing company) have gained a reputation among employees and the local community of being socially responsible in their business activities. Similarly, in Pakistan, CSR activities until recently have mainly been associated with large multinational companies (Ali et al., 2010). This suggests that some of the large companies in Sri Lanka, Bangladesh, India and Pakistan are paying increasing attention to CSR and are providing some benefits to the community. However, in most cases, these SR practices can be attributed to the philanthropic culture in the region which is influenced by the dominant religions (Islam, Hinduism and Buddhism) in the country.

Having discussed the characteristics of BoP and SIEs in the context of developing countries, in the following section, we develop a number of propositions to explain the possible link between customer awareness, adoption of SR practices by SIEs, and customer loyalty, using context-specificity of CSR as an overarching theme.

Exploring customer awareness, socially-responsible business practices of SIEs and customer loyalty at the BoP level

There is lack of clear findings on the positive returns to companies for their CSR actions which stresses the need for empirical evidence of a company’s CSR actions on its stakeholders, including its customers (Bhattacharya and Sen, 2004). Considering the argument by Friedman (1970) that the main responsibility of businesses is to create profit and employment, it is argued that social responsibility goes well beyond increasing economic value and focuses on upliftment of the poor (Seelos and Mair, 2007). Based on their empirical study Bhattacharya and Sen (2004) found that consumer reactions to CSR are not straightforward and are influenced by numerous factors. Only in some cases, socially-responsible business practices as well as product attributes were found to promote customer loyalty and trust (Bhattacharya and Sen, 2004). Similarly, based on their empirical study in Italy, Castaldo and Perrini (2004) further report that there is no guarantee that consumers will always and consistently choose companies for their CSR initiatives when purchasing products as in some cases, they may fail to notice or consider the bad social behaviour of a company when making their purchases (Castaldo and Perrini, 2004). Bhattacharya and Sen (2004) further found that customers were reluctant to compromise on price and quality of products and were unwilling to trade off CSR for product quality and/or price. Based on their empirical findings in Spanish market among the users of mobile telephone services, de los Salmones et al. (2005), report that the impact of social responsibility is vague if not indirect and support the fact that there is no direct relationship between customer loyalty and social responsibility. These conflicting findings arose from studies undertaken in developed countries, therefore, creating a new research agenda for businesses to make a business case for their socially-responsible behaviour in developing countries at the lower end of the BoP.
To contribute to this debate, we address the research question, “is there a link between the level of customer awareness of their rights at the BoP level and adoption of SR practices by SIEs?” and “does social responsibility or being socially-responsible (SR) promote customer loyalty of SIEs at the BoP level?” Drawing from the literature, we develop a set of propositions shedding light on the probable relationship between customer awareness at the BoP level, customer loyalty and socially-responsible business practices adopted by SIEs, using context-specificity of CSR as an overarching theme.

Based on literature (Dolnicar and Pomering, 2007), we assume that customer awareness is likely to lead to the adoption of SR practices by businesses, while low levels of customer awareness is likely to lead to the non-adoption of SR practices. We therefore propose that, the more aware the customer is, more likely SIEs are pressured to adopt SR (P1a). However, the relationships between customer awareness and adoption of SR practices by SIEs are moderated by a number of individual and contextual variables, which include the individual economic conditions and levels of education of the SIEs and the customers, the presence or absence of socially-responsible competitors, and the capability of the existing regulatory framework to enforce sanctions (P1b and P1c). Although the link between adoption of SR practices and customer loyalty remains inconclusive, research indicates that customers are increasingly scrutinising the way companies behave in advanced economies. Some studies (Castaldo et al., 2008; Sagar and Singla, 2004) also suggest that adoption of SR practices by SMEs and large businesses leads to customer loyalty. Extending this existing knowledge, we next propose that, SIEs are likely to experience customer loyalty regardless of their adoption of SR practices (P2a), however, this link is moderated by the same individual and contextual variables (P2b and P2c).

The following section discusses the development of each of the propositions.

Customer awareness and adoption of socially responsible behaviour

It is argued that customers are interested in the social behaviour of firms and that the CSR profile of a firm largely influences customers’ purchasing decisions in developed countries (Castaldo et al., 2008). Due to increased scrutiny and pressure from customers, companies in developed countries are increasingly considering socially responsible business practices, which is reflected in the rise of the popularity of organic products and products created according to fair trade ethical and environmental principles. Companies are also disclosing information on their CSR practices to retain a competitive edge by establishing clear ethical sourcing practices, responsible product development and marketing, and by being environmentally-friendly. Customer expectations and demand for cleaner and greener companies have led to the establishment of a number of benchmarks and guidelines such as the Sullivan Principles, the UN Global Compact, and the OECD Guidelines on MNCs. As the OECD (2001, p. 2) outlines in its report, “the basic premise of the guidelines is that internationally-agreed principles can help to prevent misunderstandings and build an atmosphere of confidence and predictability among businesses, labour, governments and society as a whole”. Customer retention is critical for the success of any business as it is more cost effective to retain existing customers than to capture new ones. Some studies further argue that the incorporation of responsible business practices paves the way for increased customer retention through enhanced customer loyalty and trust (Castaldo et al., 2008; Sagar and Singla, 2004).

The customers at the lower end of the BoP in developing countries are very vulnerable compared to their counterparts in developed countries and present a markedly different scenario, with little or no education, no protection, and limited information about their market. This situation can mainly be attributed to their poor economic conditions, and their lack of information and awareness about their rights as customers. Even common services relating to physical aspects of the product such as quality, pricing, after sales service, refunds and customer complaints, which are taken for granted in developed countries, are rarely seen to be adopted even by large businesses in urban areas in developing countries. These services are totally non-existent in the case of SIEs and, interestingly, their BoP customers do not even know that these services form part of the customer rights to which they are entitled (Davidson, 2009).

Research indicates the importance of customers’ awareness of CSR activities as a prerequisite to positive reactions as “awareness is expected to form the basis of any change in purchase behaviour because of CSR” (Dolnicar and Pomering, 2007, p. 2829). As awareness is fundamental to the effect of CSR on consumers purchase behaviour, CSR is of little practical relevance, if customers’ awareness about businesses CSR initiatives is low. Even in developed countries, research (Bhattacharya and Sen, 2004) suggests significant heterogeneity among consumers in terms of awareness and knowledge of companies’ CSR activities. In the
context of developing countries, awareness of customers about their rights and about the understanding of CSR itself is a major issue. This problem becomes more pronounced for the customers at the BoP, as these customers lack education, and access to information and are not aware of their own rights.

Discussing the situation in Nepal, Subedi (2004) argues that customer rights are some of the most ignored rights in Nepal, mainly due to lack of customer awareness. Complicating this scenario is the fact that, in most cases, it is not just the customers, the SIEs are not aware of customers’ rights and their responsibilities to protect them. In the unlikely instances where they know about them, they choose to ignore them. This is mainly due to the lack of socially-responsible competitors, a poor regulatory environment (Estache and Wren-Lewis, 2009), lack of sanctions, inappropriate penalties, and the pervasive corruption in developing countries (MacIntyre, 2003), all of which encourage them to adopt socially-irresponsible practices and focus on short-term profits as their priority is on their immediate survival. Discussing the responsible entrepreneurship of SIEs in developing countries, Azmat and Samaratunge (2009) hypothesise that SIEs are less likely to behave in a socially-responsible way when they experience poor economic conditions (both at national and individual level), and are exposed to a low level of awareness about the importance of customer retention, their rights and trust in customer-trader relationships. This is further supported by the earlier work of Shi (2007, p. 23) who argues that responsible business practices will come more naturally in developing countries “where economic development reaches a level to be able to afford CSR”. Due to their poor socio-economic conditions and their lack of awareness about the importance of customer trust and loyalty, SIEs engage in irresponsible business practices.

Similarly, reflecting on the situation in India, Rashmi (2003) points out that many products are sold in the market without much information or with misleading information about their quality, quantity and freshness. It is also common to have adulterated food items sold in the market such as milk contaminated with detergent, refined oil, caustic soda or urea; mustard oil can be adulterated with Argemone oil; and vegetables and fruits are artificially coloured. The situation is similar in Bangladesh, where the law – the Bangladesh Pure Food Ordinance – prohibits the use of harmful, poisonous chemicals like formalin and pesticides, or intoxicating food colour, in any food which is for human consumption. However, there are reports that the sale of seasonal fruits ripened with harmful chemicals and pesticides continues in the rural markets, and the authorities concerned are yet to launch any steps to deal with these irresponsible business practices (Reporter, 2009). Similarly, in Sri Lanka, it is also found that the quality of products traded by SIEs is low and regulation of the business environment is weak (Dayaratna-Banda, 2007).

The discussion above leads to the conclusion that, as the customers at the end of the BoP in the South Asian region are poor, lack education and are unaware of their rights, consequently, they “are caught in a vicious circle of food and commodity adulteration, being cheated in weighing and measuring, hoarding and artificial price-hikes” (Subedi, 2004, p. 1). As a result of the lack of awareness of customers about their rights, and of the SIEs about their responsibilities and the importance of building a long-term relationship with customers, the SIEs adopt irresponsible business practices. These irresponsible practices are manifested by commodity adulteration, misleading advertisements, cheating in weighing and measuring, hoarding and artificial price-hikes. Further, this whole situation is made worse by the lack of socially-responsible competitors and the poor regulatory framework which is unable to enforce sanctions. Based on the above discussion, we propose the following propositions:

P1a. The more aware the customer is, more likely SIEs are pressured to adopt SR practices.

P1b. The link between customer awareness and adoption of SR practices is likely to be moderated by individual and contextual variables which include the individual economic conditions and levels of education of the SIEs and the customers, the presence or absence of socially-responsible competitors, and the capability of the existing regulatory framework to enforce sanctions.

P1c. The link between low level of customer awareness and non-adoption of SR practices by SIEs is likely to be moderated by individual and contextual variables which include the individual economic conditions and levels of education of the SIEs and the customers, the presence or absence of socially-responsible competitors, and the capability of the existing regulatory framework to enforce sanctions.

**Adoption of SR practices and customer loyalty**

Customer loyalty has become increasingly important as it has been strongly linked with profitability of a given company. It is now being recognised that companies with higher customer loyalty exhibit higher revenues,
higher returns on investment, and higher profitability (Oswald et al., 2006). Although the relationship between CSR-related activities and increased customer loyalty is debated, some studies argue that social responsibility and ethics do have a positive influence on customer behaviour (Clarke and Bell, 1999). In the last couple of decades, companies in the developed countries have been using a variety of communication tools which include certification and labelling, reporting, customer guidelines and marketing strategies to inform customers of the company’s social responsiveness to deal with the strategic imperative of gaining customer loyalty. To remain competitive, companies, in addition to focussing on the physical aspects of the product, are also focussing on emotional and value aspects to create enduring customer loyalty (Oswald et al., 2006). In a bid to retain customers and remain competitive, companies in developed countries are increasingly focussing on providing the customer with real emotional experiences in addition to guaranteeing the physical attributes of products and services. For example, Oswald et al. (2006) argue that companies are not only generating customer experiences that are beyond physical attributes such as quality, quantity, delivery, price-product bundling, safety, security and privacy, but they are increasingly focussing on providing the emotional experiences of meaning, value, entertainment, friendly and caring service, and belongingness.

In doing so, companies in developed countries are increasingly focussing on building the intangibles of CSR – building trust, reputation, and goodwill – to be profitable and competitive. These image-enhancing decisions have the twin objectives of increasing the loyalty of existing customers and aiding in attracting new customers (Aharoni, 1993). In fact, “intangibles such as reputation, trust and capacity to innovate - all widely recognised as fundamental to strong financial performance – are, at the same time, integral to the CSR agenda” (Whites, 2006, p. 1). Corporate reputation, linked with CSR can be considered a valuable strategic resource that contributes to a firm’s sustainable competitive advantage (Capozzi, 2005), however, it is becoming increasingly difficult to achieve. Even in developed countries, it has been reported that although companies usually use their web sites to promote their CSR actions, very few customers read such reports (Ali et al., 2010).

Developing countries present a different scenario. Due to the lack of customer awareness and limited technological advancement, even the large companies do not promote their CSR actions online, and this is absolutely unimaginable in relation to SIEs. Ali et al. (2010), in their quantitative study found that customers in the cellular phone industry, which is the fastest growing sector in Pakistan, had a low level of awareness about CSR activities. They did not consider the company’s contribution towards society in their buying decisions, rather they paid more attention to pricing strategies than the CSR activities of service providers. This situation is even more complicated in the case of the BoP customers because of their unique characteristics, and of the SIEs who come from low social classes, poor economic conditions and low levels of education and awareness. In developing countries, lack of awareness not only leads to BoP customers being ignorant of their rights, but also leads to a situation where these customers do not have expectations from businesses. This is mainly due to the fact that, in most cases, they are not legally entitled to basic customer rights such as rights for refunds, appropriate physical attributes, informative and honest advertising and so on. Drawing from the literature, it can therefore be argued that adoption of SR practices by SIEs in developing countries is likely to lead towards building customer loyalty. However, based on the unique context of BoP and SIEs in developing countries, it is likely that even non-adoption of SR practices by SIEs can lead to blind customer loyalty. The BoP customers, regardless of being cheated and victimised by the short-term profit-gaining motives of SIEs, may continue to show their loyalty by buying products -goods and services -from the same retailers. Although there can be multiple competitors in the market, in most cases they do not adopt SR practices and hence the lack of socially-responsible competitors further complicates and worsens the situation of BoP customers and forces them to be blindly loyal.

Castaldo et al. (2008, p. 1), based on their empirical evidence, suggest that a company’s reputation for CSR influences customer intentions in the presence of at least two conditions. These conditions include whether “(1) the products sold by that company comply with ethical and social requirements; (2) the company has an acknowledged commitment to protect customer rights and interests”. Both these conditions, although important and applicable in developed countries, are compromised for the BoP customers in the context of developing countries. The first condition of complying with ethical and social requirements is not important to BoP customers, who, in contrast to their counterparts in developed countries, are poor and struggle for their existence and are, therefore, not in a position to be concerned about ethical and social requirements. Second, the issue of complying with ethical and social requirements and being socially-responsible in terms of providing quality goods and services is compromised by the SIEs who, in most cases, use deceptive advertising and misleading information about their products, and customers are not in a position to observe the quality. In
addition, a company’s commitment to protecting customer rights and interests is also compromised to a great extent in the context of developing countries where customers at the BoP level lack awareness about their rights.

In the context of developing countries, the BoP customers are likely to exhibit loyalty to their retailers despite being cheated by them for profit motives. This blind loyalty results from the unique combination of individual and contextual realities which include their poor socio-economic conditions, lack of access to information, lack of socially-responsible competitors and, finally, the lack of a strong regulatory framework to punish the wrong-doers and enforce sanctions. This scenario, therefore, leaves the customers at the BoP with no choice and, as victims of both individual and contextual realities, they exhibit blind customer loyalty. Accordingly, this leads to the following propositions:

P2a. SIEs are likely to experience customer loyalty regardless of their adoption of SR practices.

P2b. The link between adoption of SR practices and customer loyalty is likely to be moderated by individual and contextual variables which include the individual economic conditions and levels of education of the SIEs and the customers, the presence or absence of socially-responsible competitors, and the capability of the existing regulatory framework to enforce sanctions.

P2c. The link between non-adoption of SR practices by businesses and blind customer loyalty is likely to be moderated by individual and contextual variables which include the individual economic conditions and levels of education of the SIEs and the customers, the presence or absence of socially-responsible competitors, and the capability of the existing regulatory framework to enforce sanctions.

Conclusion

Even though the BoP proposition has attracted increasing academic attention in the recent past, the discussion has been focussed on large MNCs and has been silent on both SMEs and SIEs who mainly cater to the BoP customers. In addition, all the attention on the BoP is confined to the top segment that has the capacity to purchase non-essential goods and services. The middle and the lowest segments remain ignored, despite their large numbers and huge potential. These segments of the BoP are involved with SIEs on a day-to-day basis, either as customers or as producers. In this paper, we address this void in the literature by focussing on the lowest segment of the BoP—the poorest of the poor.

Although it is now agreed that CSR is “essential for successful business operations” (Jamali and Mirshak, 2007), SIEs have not received adequate attention in the CSR literature (Azmat and Samaratunge, 2009), despite their vast numbers in developing countries. There has been limited or no research on the social responsibility of SIEs, or on investigating whether being socially-responsible has any influence on their retaining customers. Given their unique customer base that lies at the BoP, a significant void is left in the literature. This paper attempts to shed some light on this under-researched topic.

This paper, therefore, adds to the literature in a number of ways. First, by linking social responsibility of SIEs with customer loyalty at the BoP, the paper contributes to two different but important inter-related discourses of SIEs and their adoption of socially responsible practices, and the BoP literature. Second, in the current context of increased focus of businesses on tapping the vast unexploited BoP markets, the findings extend existing knowledge and provide insights into the uniqueness of this market and the problems of retaining customers at the BoP level, particularly if they are blindly loyal. Third, although theoretical, ours is one of the few studies that has addressed and linked the critical issues of social responsibility of SIEs and customer loyalty at the BoP. Finally, our study makes an additional contribution to knowledge about “blind loyalty” among the customers at BoP level.

It is however important to understand that, although blind customer loyalty is likely to be seen in customers at the BoP level, this situation might change with developments such as increased access to information which is, in fact, happening in developing countries at a fast pace, particularly with the telecommunication and IT revolution. This further implies that with increased access to information and awareness, the BoP customers will have more choices and it will be increasingly difficult for the SIEs to remain competitive unless they adopt socially-responsible business practices. The economic success of any organisation mainly depends on their ability to leverage available resources into a value creation process (Seelos and Mair, 2007). Thin profit margins can lead to high returns and “payoffs come with the volume” (Akula, 2008: 57). These principles apply to SIEs, with no exceptions, highlighting the importance of expanding their involvement in the vast BoP market.
by being socially responsible. Focussing on SR practices will also help SIEs to become a part of their local community and to build a local base of political support in favour of them. This will open up more new opportunities to attract additional customers.

A number of major implications can be drawn from the findings of the study for SIEs, policy makers and businesses entering the BoP market. The likelihood of SIEs experiencing blind loyalty – in spite of being socially irresponsible – not only encourages SIEs to engage in irresponsible business practices to seek short term profit, it may also discourage SIEs who are socially responsible, thus explaining to some extent the growing evidences of irresponsible business practices adopted by SIEs in the South Asian countries. However, with the empowerment of customers at the BoP as a result of rapidly diffusing technology in South Asia, we assume that sooner not later, SIEs would not be able to just focus on short-term profits and enjoy blind loyalty. This therefore reinforces the importance of SIEs to be socially responsible to retain customers and expand their share in the vast BoP market in the long-run.

The findings also provide implications for the policy-makers to make the population at BoP aware of their rights and to provide them with access to information through simple technologies. In this current era of information technology, simple e-government practices tailored to the needs of the population and infrastructure facilities have the potential to provide the BoP population a platform for their empowerment, and creating awareness. In fact, in India and Bangladesh, mobile phone is already providing web access to services ranging from healthcare to e-commerce to the BoP thus empowering the customers and making them agents of change (Rashid and Elder, 2009).

Finally, the paper also provides insights for practitioners and businesses into the uniqueness of SIEs, BoP customers and the contextual variables in developing countries to customise their operating strategies when considering the BoP segments, which are an untapped, growing and hence lucrative market in South Asian countries. This is a theoretical paper; empirical research is recommended to test the propositions in the context of developing countries. Particularly, the concept of blind loyalty needs to be further researched with different segments of BoP customers to see how they differ in terms of their loyalty. Further, research can incorporate clusters of developing countries and their unique characteristics to investigate how these characteristics shape the socially-responsible business practices of SIEs and their effect on customer loyalty. It would also be valuable to explore the level of customer awareness about their rights at the BoP level in these countries and how it is moderated by individual economic and social conditions. Despite the limitations of the paper being theoretical, the findings of the study help to shed some light on the under-researched areas of social responsibility of SIEs, customer loyalty at BoP and also provide some explanation for the growing evidences of irresponsible business practices adopted by SIEs. In doing so, the findings have reinforced the strategic significance of key issues that need to be addressed by the SIEs, the policy makers as well as providing insights for businesses entering the BoP markets in developing countries.

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