

An Exploratory Study into Influence of Corporate Social Responsibility on Consumer Price Sensitivity

Tatjana Petricevic; Ralitza Bell, Australian Catholic University

Abstract

This exploratory study examined the effect of two CSR initiatives on consumers' purchase behaviour and willingness to pay more for product's social features. Prior research on CSR tends to concentrate on consumers' trade-off between product functional features and its social attributes, making it difficult to understand how CSR alone affects consumers purchase behaviour and willingness to pay. The present study intended to address this gap in knowledge. The findings not only indicate that CSR strongly affects consumers' willingness to pay more where no compromise on product functional features is involved, but provide some evidence that such willingness to pay will depend on the consumer-perceived relevance of the implemented type of CSR initiative to the particular product category.

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Introduction

Consumers increasingly show interest in social behaviour of companies (Auger *et al.*, 2003), to the extent that it affects their product and service preferences (Basil and Weber, 2006; Freestone and McGoldrick, 2008; Smith, 2003). CSR's ability to create positive consumer attitudes and influence consumer purchase behaviour has been extensively investigated in the CSR literature (Pomering and Dolnicar, 2009). Kanji and Chopra (2010) suggest that one of the factors influencing the increasing adoption of CSR by companies is that consumers are becoming more aware of the environmental and social implications of their purchases, which then affects their purchase decisions. However, implementing CSR initiatives creates additional costs for the company (Mohr and Webb, 2005), and firms rarely undertake these costly initiatives unless they expect that implementation thereof will benefit the company financially (Bhattacharya and Sen, 2004; Valor, 2008). Thus, it is of a strategic importance that companies are able to evaluate which socially responsible initiatives are valued by their consumers and are likely to be supported by them. Currently there is a very little guidance as to how companies can ensure the right CSR initiatives are implemented (Bhattacharya, Korschun and Sen, 2009), so that this results in satisfactory social and financial returns on their CSR investments.

Literature Review

For the past few decades the stakeholder theory became a common frame of reference when CSR is discussed (Pedersen, 2006). Therefore, it was used to provide a theoretical perspective for this study. This theory, on which CSR is grounded, proposes that stakeholder management (i.e. managing the business in a way ensuring the interests of all stakeholders are met) is a more effective corporate strategy than the shareholder-oriented approach, and that companies implementing it will perform better in the long run (Solomon, 2007).

Research on consumer responses to CSR shows that consumers are not only showing an interest in responsible business practices that concern their own wellbeing (i.e. product safety) but also in CSR practices that do not affect them directly (i.e. labour practices involved in manufacturing products) (Maingan and Ferrell, 2004). A review of the related CSR literature indicates that studies of CSR's effect of on consumer related outcomes fall into two streams.

The first stream includes articles that seek to explore the effect of company's CSR activities on consumers' evaluation of the firm and its products (Brown and Dacin, 1997; Sen and Bhattacharya, 2001) and consumers' purchase behaviour (Auger *et al.*, 2008; Bhattacharya and Sen, 2004; Creyer and Ross, 1997; Marin *et al.*, 2009; Mohr Webb and Harris, 2001). The findings indicate that high level of CSR often leads to a consumers' more favourable evaluation of the company and its products (Brown and Dacin, 1997). However, some studies suggest that the positive link between CSR and consumer purchase behaviour would only exist if certain conditions are present, including consumers' support for the issue central to the company's CSR efforts (Sen and Bhattacharya, 2004).

Within the second stream, most recently some articles examined consumer willingness to pay for product social features (Auger *et al.*, 2003, Auger *et al.*, 2008, Creyer and Ross, 1997; De

Pelsmacker *et al.*, 2005; Madrigal and Boush, 2008; McGoldrick and Freestone, 2008; Trudel and Cotte, 2009). While the body of evidence on consumers' willingness to pay premiums for product social attributes is growing, this complex topic calls for further research given the diverse product contexts and wide range of socially responsible initiatives across which this issue is investigated. Prior studies do not seem to provide any indications on whether consumer willingness to pay a price premium for a responsibly made product may be affected by consumer perception of the importance of certain CSR initiative in respect to this particular product category. In addition, studies examining consumer willingness to pay often involve the manipulation of the product functional features (i.e. quality, style, convenience, taste) alongside its social attributes, hence obscuring the evaluation of the effect that CSR solely has on consumer willingness to pay. These issues are addressed in the present study.

CSR and Consumer Behaviour

The first concern of this study relates to the effect of CSR on consumer purchase intentions. Previous research suggests that consumers will react favourably to a product made responsibly, especially should there be no extra cost involved in the choice to purchase such product (Auger, *et al.*, 2008). In line with these findings this study proposes the first hypothesis H1: "When the price of a product made by a company high in CSR initiatives is equal to the price of a similar product made by a company low in implementing CSR initiatives (assuming all other product features are equal), consumers will prefer to purchase the product made by a company high in implementing CSR initiatives".

Much of the research in CSR from a consumer perspective involves consumers to trade-off between product functional features and its social attributes. However, there is little to suggest whether product social attributes alone (and if so, to what extent) affect the price consumers are willing to pay for the product. Thus, the first research question that this paper aims to answer is: "Are consumers willing to pay a higher price for a product they know is made responsibly (all other product features being equal), and if so, how much more are they willing to pay"?

Research suggests that consumers are more likely to respond to company's CSR efforts when they strongly support the specific CSR initiative the company implements (Sen and Bhattacharya, 2001) and that they are more likely to pay a price premium for a product where they strongly support the issue central to the company's CSR efforts (Bhattacharya and Sen, 2004) . In line with these findings, this research explores the importance that consumers associate with specific CSR initiatives with respect to manufacturing a particular product (a T-shirt), to investigate if the level of importance attributed to the CSR initiative would affect consumer willingness to pay a price premium. Hence, the second hypothesis is proposed: H2: "The higher the importance consumers attribute to a CSR initiative in relation to a particular product, the higher the price premium they are willing to pay for the product made by a company high in implementing this initiative". It raises the second research question: "Does the price premium consumers are willing to pay for a responsibly made product reflect the importance consumers place on the implemented CSR initiative in relation to this product category"? To our best knowledge, this question has not been addressed in the CSR literature so far.

Methodology and Design

Since consumer price sensitivity was not previously studied in the context of CSR initiative-product category match, an exploratory research design seems logical and justifiable. A small survey to gather quantitative data (Aaker *et al.*, 2005; Cochran and Dolan, 1985) was conducted with 15 consumers in Sydney, using a non-probability convenience sampling method (Zikmund, 1997). Three scenarios involving a hypothetical purchase of a \$20 T-shirt were created to manipulate implementation of CSR at two levels, low and high, and across the two above mentioned CSR initiatives. These scenarios aimed to explore consumer purchase preference between a T-shirt made by a hypothetical Company A (high in implementing CSR) and a T-shirt made by a hypothetical Company B (low in implementing CSR). Each two fictitious products were described to participants to be of a similar quality, style and design. The product was selected because all consumers are familiar with the product category. CSR1 initiative (labour practices) was selected because of its relevance to the product category (i.e. textiles manufacturing is often associated with poor labour conditions). The selection of CSR2 (diversity in employment) was based on Brown and Dacin's (1997) argument that this particular CSR initiative is irrelevant to the company's ability to make a quality product. This helped to minimise the possibility of consumers associating the socially responsible initiative with the presumed product quality. This is a very important element of the current study, given the argument of Sen and Bhattacharya (2001) that in certain situations the presence of CSR initiatives can even decrease consumers' intention to buy a company's product, as consumers may perceive that the CSR initiatives are implemented at the expense of product quality.

The first scenario presented respondents with the products by each Company A (high CSR) and Company B (low CSR) priced the same, i.e. \$20, to explore if CSR alone would affect consumer purchase decision. In the second scenario the price of a T-shirt made by Company A was kept constant at \$20, reflecting higher production cost as a result of implementing CSR (Mohr and Webb, 2005), while the price of a T-shirt made by Company B was gradually reduced by the researcher from \$18 to \$2, at \$2-intervals, exploring the price level at which the consumer will switch preferences and will consider purchasing the T-shirt made by Company B. This scenario allowed for exploring how high a price premium will consumers be willing to pay for a responsibly made T-shirt, in the context of each of the two CSR initiatives. The price premium for each respondent was determined as the difference between \$20 (the price of the T-shirt manufactured by Company A which was kept constant all the way through) and the price at which consumer would switch to the T-shirt of Company B, as its price gradually declines. Finally, the third scenario involved participants ranking the importance of each CSR initiative in respect to manufacturing of a T-shirt on a scale from one to 10, to examine if there will be relationship between the importance consumer attributes to a specific CSR initiative in respect to a specific product category (a T-shirt) and the size of the respective price premium they are willing to pay (obtained in the second scenario). The results were analysed using simple descriptive statistics.

Findings and the Analysis/Discussion

In relation to the first scenario, all respondents were willing to buy a product from Company A (high CSR) for each CSR initiative, where the price of the two products from the two hypothetical companies was equal. Hence, the results indicate support for H1, namely that given equal prices and other product features, consumers will prefer to purchase the product from the socially responsible company. The results obtained in the second scenario were

grouped into three categories within the "willingness to pay a price premium for CSR" dimension, i.e. high (\$14-\$18), moderate (\$6-\$12) and low (\$2-\$4) price premium, based on the frequency counts of results. Corresponding to these categories, the responses obtained in the third scenario relating to importance consumers attributed to CSR initiatives on a one to 10 scale were also grouped into three categories, i.e. high (eight to 10), moderate (four to seven) and low (one to three) importance, to allow comparability of results and to respond to the second research question and H2. The results from the second scenario (i.e. exploring the extent of consumer willingness to pay a price premium for a responsibly made product) provide a strong indication of consumer willingness to pay a price premium for each CSR1 and CSR2. There was a slightly higher number of participants willing to pay a high premium (i.e. \$14-\$16) in respect to CSR2 compared to CSR1. Given the demographics of the sample (all respondents were from Australia) it could be speculated that consumers are more sensitive to an initiative that can potentially affect them personally than to CSR initiatives that affect someone else. Still, 20% of participants for each CSR1 and CSR2 expressed willingness to pay only a small price premium which demonstrated that both CSR initiatives have virtually no effect on their willingness to pay. Tables 1 and 2 presents the results obtained in the second scenario.

Tables 1 and 2: Willingness to pay a price premium for CSR based on the total number of participants

Table 1 CSR1 (Labour Practices)

Category	Number of Respondents	% of Total Number of Respondents
High	3	20%
Moderate	9	60%
Low	3	20%
Total	15	100%

Table 2 CSR2 (Diversity in Employment)

Category	Number of Respondents	% of Total Number of Respondents
High	5	33%
Moderate	7	47%
Low	3	20%
Total	15	100%

In relation to the third scenario (i.e. exploring the relationship between importance consumers allocated to CSR initiative and their willingness to pay a price premium) the results revealed different patterns within the three stated categories in respect to CSR1. Consumers in the "high willingness to pay a price premium" category for CSR1 (\$14-\$18 premium) also assigned high importance to CSR1 in respect to manufacturing of a T-shirt, hence supporting the proposition of H2, namely that the higher the importance consumers attribute to a CSR initiative, the higher the price they will be willing to pay for a product made by company high in implementing that initiative. A large proportion of consumers in the "moderate willingness to pay a price premium for CSR" category (i.e. 56% of consumers within this category) assigned high importance to CSR1, despite being willing to pay only a moderate premium for the T-shirt made responsibly. Still 22% of consumers in this category attributed low importance to CSR1, while 22% of them assigned moderate importance to CSR1 that was in line with the price premium they were willing to pay for a responsibly made T-shirt. These results partially support the proposition of H2. High inconsistency existed within the "low willingness to pay a price premium for CSR" where consumers attributed high importance to CSR1, while the same consumers were not willing to pay more than \$2 premium for a responsibly made T-shirt in respect to this initiative, hence not supporting the proposition of H2. Table 3 presents the results of this analysis. In regards to CSR2 consumers in the "high willingness to pay a price premium for CSR" category attributed high importance to CSR2 in respect to manufacturing of a T-shirt (with an exception of one participant), hence supporting the proposition of H2. High consistency was also present in the "moderate willingness to pay a price premium for CSR" category where importance consumer assigned to CSR2 ranked from high (29% of consumers in this category) to moderate and low (57% and 14%

respectively), hence supporting the H2. However, similar to CSR1, very high inconsistency was found in the "low willingness to pay a price premium for CSR " category, where consumers assigned a very high importance ranking to CSR2 (between seven and nine out of 10) while they were not willing to pay more than the minimum \$2 premium for a T-shirt made responsibly. Hence, H2 was not supported within this respondent category in respect to CSR2 (diversity in employment). Table 4 presents the results of this analysis.

Tables 3 and 4: Relationship between willingness to pay for CSR and importance of CSR based on the number of participants within the three stated categories

Table3: CSR1 (Labour Practices)

Willingness to Pay a Price Premium for CSR1		Importance of CSR1 Initiative		
Number Of Participants	Category	Category		
		Low	Moderate	High
3	Low			100%
9	Moderate	22%	22%	56%
3	High			100%

Table4: CSR 2 (Diversity in employment)

Willingness to Pay a Price Premium for CSR2		Importance of CSR2 Initiative		
Number Of Participants	Category	Category		
		Low	Moderate	High
5	Low			100%
7	Moderate	14%	57%	29%
3	High	20%		80%

In conclusion, there is a strong indication of a relationship between consumers' willingness to pay a price premium for a product made responsibly and the level of importance that consumers attribute to the CSR initiative in relation to a particular product category. These findings were most evident among those consumers who were willing to pay high or moderate price premium for a responsibly made T-shirt. Most of inconsistencies in the sample were found in the "low willingness to pay a price premium for CSR" category, and this was evident with both, CSR1 and CSR2.

Contributions, Limitations and Further Research

This exploratory study delivers an important insight into the research problem. The findings provide indication that CSR initiatives affect consumers' willingness to pay for a responsibly made product, where consumers' decision is not affected by their perception on the level of quality and other product functional features. Results also suggest the existence of relationship between consumers' willingness to pay for CSR and the level of importance they attribute to a CSR initiative in relation to a particular product category. These findings have important practical implications to companies. If a company can evaluate which CSR initiative their consumers regard as important with respect to their particular products and associated manufacturing practices, they might be able to better prioritise their CSR initiatives. Implementing such CSR initiatives will, in addition to great social implications, have positive effect on company's market performance, hence supporting the argument of the stakeholder theory. This research represents only a small scale exploratory study based on a non-representative sample. This limitation warrants caution with the results, which should only be used as an orientation and means of structuring further research which should be based on a larger sample and use more thorough and precise quantitative methodology.

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