SATELL INSTITUTE

WHO REALLY CARES ABOUT CORPORATE SOCIAL RESPONSIBILITY?

*A Lab Experiment on the Impact of CSR on Consumers'
Purchasing Behavior*

Peter Frumkin, Yuan Tian, Chia Ko Hung
School of Social Policy and Practice, University of Pennsylvania

A Satell Institute CSR Research Report for Business Leaders

EXECUTIVE SUMMARY

CSR Positively Affects Consumer Behavior

This research examines the effects of Corporate Social Responsibility (CSR) on consumers' perceptions of companies AND on their actual purchasing behavior. The study provides new evidence of CSR's affects across four different domains: 1. *Community and Philanthropic Support;* 2. *Human Rights and Ethical Conduct;* 3. *Employee Development and Support;* and 4. *Environmental Sustainability.*

We measure the impact of each of these forms of CSR on actual purchasing behavior through a laboratory experiment. In this study, we find evidence supporting the business case that CSR matters in driving consumers' actual purchasing behavior. We find that CSR activities in the *Employee Development and Support* and *Environmental Sustainability* domains are most effective in promoting actual purchasing behavior.

The findings suggest important implications for the field. Specifically, corporations should be aware of the importance of CSR activities in different domains when designing CSR initiatives if their goal is to impact the company's bottom line sales.

For some companies, the business case for CSR will be more important than for others. There will always be companies that do CSR just because they believe it is the right thing to do. However, if a company does want to connect its CSR work with the sales function of the firm, evidence of the kind presented here – that this work can actually shape purchasing behavior – may be helpful in terms of generating broader and sustained support of CSR among senior leadership.

"In this study, we find evidence supporting the business case that CSR matters in driving consumers' actual purchasing behavior."

INTRODUCTION

The breadth of Corporate Social Responsibility (CSR) practices today is impressive. Some corporations offer not only environmentally-friendly products, but also work to radically reduce their waste output. In addition, many corporations prioritize family-friendly policies for their workers and give employees a voice in company decisions. Around the world, companies now take very seriously preventing human rights violations from taking place in their factories and supply chains overseas. Some companies use philanthropy to help local nonprofits deliver critical health, education, human services, and cultural programs to the communities in which they are headquartered. None of these forms of CSR are mutually exclusive and corporate leaders often look for ways to implement all or many of these public-oriented initiatives.

In order to make CSR more effective and efficient as a tool to change the world to be a better place with individuals' engagement (i.e. supporting the corporation through purchasing), it is essential for corporations to know how consumers would perceive and react to CSR activities in different domains before they initiate and implement the CSR programs. This study aims to provide just such information to those charged with designing and managing CSR programs. Here we examine the effects of CSR on consumers' perceptions of companies AND on their actual purchasing behavior. The study provides new evidence of CSR effects across four different domains: 1. *Community and Philanthropic Support*; 2. *Human Rights and Ethical Conduct;* 3. *Employee Development and Support;* and 4. *Environmental Sustainability.*

We consider the impact of each of these forms of CSR on actual purchasing behavior through a laboratory experiment. More specifically, this study is designed to answer two questions. First, would consumers be more likely to purchase a new product from a corporation with CSR programs than without CSR programs? Second, are consumers more likely to buy the product depending on the form of CSR that a company practices? If CSR domains do matter, which domains are most effective in driving consumer behavior, and which are least effective in terms of promoting purchasing behavior?

Our study extends the literature on three aspects. First, it measures consumers' actual purchasing behavior rather than their purchasing intentions. Second, it investigates and compares the purchasing behavior in four different and specific CSR domains rather than merely one holistic CSR domain. In this study, we find evidence that CSR matters in driving consumers' actual purchasing behavior in support of a specific CSR domain. Specifically, CSR activities in the Employee Development and Support and Environmental Sustainability domains are most effective in promoting actual purchasing behavior.

PARTICIPANTS AND DESIGN

We recruited 210 fluent English-speaking students over the age of 18 from a Midwestern urban university campus for a group experimental study conducted between December 1st, 2017 and December 21st, 2017 (mean age=21.5, SD=4.26, range=18 to 54). The final sample was 53% female, with an ethnic distribution of: 50% Caucasian, 21% African-American, 11% Hispanic/Latino, 5.24% Asian, and 13% others[1]. The average age of study participants was 21.5, ranging from 18 to 54. The study used a between-subject design to examine the effects of CSR across different domains on consumers' actual purchasing behavior of the corporation's new product (See Figure 1). To detect the difference between five conditions with 80% confidence, we would need a total sample size of 200 participants. Therefore, our final sample of 210 participants is sufficiently powered to detect medium effect sizes in a lab setting. Each participant went through a sequence of events that is charted in the figure below.

Figure 1: **Study Design and Procedure**
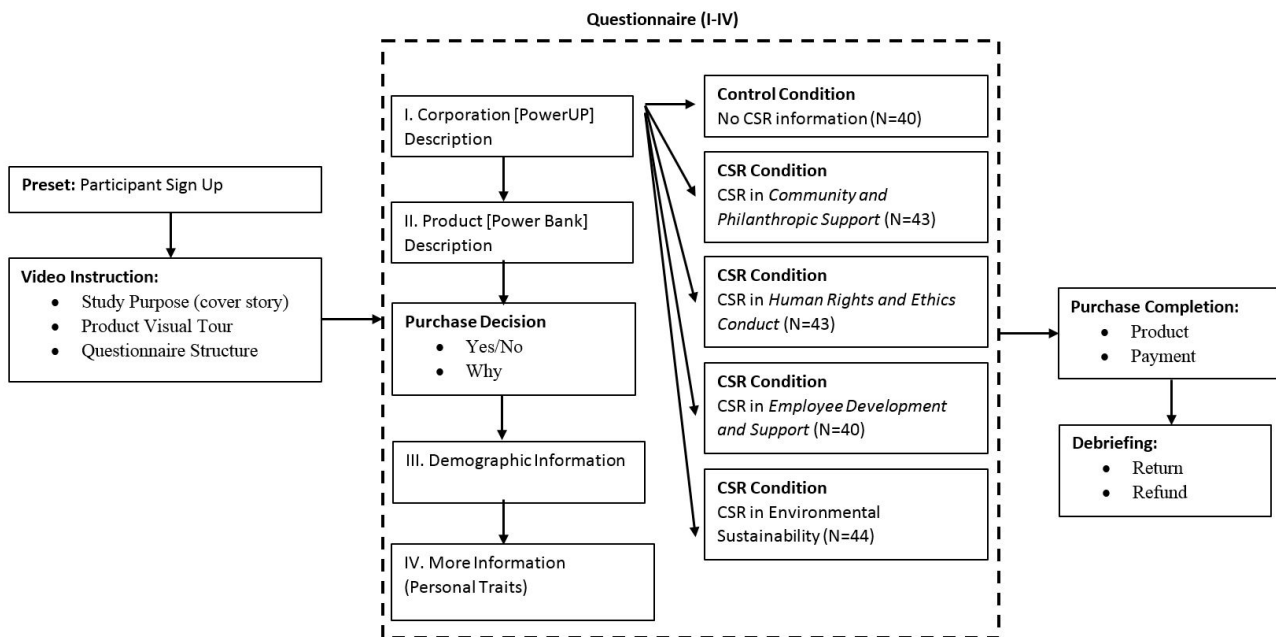
STUDY PROCEDURES

To enhance external validity, participants needed to be exposed to information about CSR and the new product of a corporation that they believed to be real. Thus, we used a cover story to ensure

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[1] Other categories include Arab American/Arabians (2%), Native Hawaiian or other Pacific Isla (1%), mixed racial (5%), and unidentified others (5%).

that participants believed that our study was designed to evaluate a for-profit corporation's practices and products. We purposely set the background of this hypothetical corporation as a high-technology corporation for two reasons. First, according to Forbes magazine, most corporations on their top 10 list for CSR are in the high-technology and automobile industry[2]. Thus, we started with the assumption that consumers tend to connect CSR with high-tech corporations. Second, since we wanted to investigate the effects of CSR on purchasing behavior, we had to choose a corporation whose product was affordable to the participants. Thus, in the cover story, we named this hypothetical corporation PowerUP and decided to use a Universal Power Bank (portable charger for smartphones/tablets) as the corporation's new product. During the debriefing, all participants reported believing the cover story.

CONDITIONS MANIPULATION

The manipulation of different forms of CSR occurred in the first section of the questionnaire, in which we embedded different CSR program descriptions into the corporation's profile. According to the most comprehensive summary of the various CSR actions in *Socrates: The Corporate Social Ratings Monitor* (Kinder, Lydenberg, & Cohen, 2005), a database of over 600 corporations' CSR records, CSR initiatives can be roughly categorized into six broad domains. Sen and Bhattacharya (2001) describe different types of CSR initiatives across these six domains (i.e., community support, diversity, employee development, environment, non-U.S. operation, and product) (p.226). In this study, we condensed and combined these six CSR domains into four easily understandable domains and added a control condition. We constructed an experimental research design to examine which domain best represented consumers' vision of CSR and worked best to promote purchasing behavior (see Appendix 1 for corporation descriptions in different CSR domains.)

- Control Condition
- Community Philanthropic Support
- Human Rights and Ethical Conduct
- Employee Development and Support
- Environmental Sustainability

STUDY FLOW

Preset. Participants were scheduled to come in person to participate in the study in a reserved classroom on campus with a capacity of 50 people. The whole study was approximately one hour in

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[2] Top 10 corporations with best CSR reputation in 2017: Microsoft, Google, the Walt Disney Corporation, BMW, Apple, Mercedes-Benz, Volkswagen, Sony, Colgate-Palmolive, and LEGO-Group.

length. The study was initiated every two hours on three different days in December 2017 from 9 a.m. to 5 p.m. Outside the research classroom, researchers set up a table to sign up participants. To ensure that sessions started on time, all participants were scheduled to come 15 minutes ahead of a session to be signed up for the study. Participants were randomly assigned to take a questionnaire in one of the experimental conditions. Then, participants were asked to go into the reserved classroom and quietly wait for the session to start.

Video Instruction. When a session started, all the participants in the session watched a three-minute video. The video content included a brief instruction on the purpose of the study (using our cover story), the structure of the questionnaire, and a visual tour of the corporation's new product, a portable power bank (a charger for smartphones/tablets). Participants were given an opportunity to ask questions after the video before they started their questionnaires in the classroom.

Questionnaire. Participants were randomly assigned to take the questionnaire in one of the five experimental conditions. The questionnaire included four different sections: corporation description, product description, demographic information, and additional information sections. Specifically, the first section started with a brief description of the corporation, which differed in its CSR description in different experimental conditions (see Figure 1 and the Appendix 1). After this, the questions that followed were designed to screen the validity of participants' answers and to check the effectiveness of our manipulation. The second section was a brief description of the corporation's new product. The questions that followed this portion measured participants' impressions about the product and the corporation, as well as their working intentions if a job were to be offered to them by the corporation. The last two questions in this section surveyed participants' personal *Decision to Purchase* the new product (yes/no) and their *Decision-Making Motivations* (why). Specifically, participants were asked to make a purchase decision via the question: "The corporation's new product, the Universal External Power Bank, is now on pre-sale for only $10 today. Would you like to purchase one (yes/no)?" Right after this question, participants were provided a message that differed across conditions. In the control condition, they saw the message: "Your purchase will match the price of the product listed on Amazon," and in the other CSR experimental conditions, participants saw the message: "Your purchase money will go to support PowerUp's CSR programs in [X domain][3]." Then, participants were asked to specify their reasons for the purchasing decision in an open question format. The third and fourth section surveyed participants about demographics, values, and personal traits[4].

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[3] X was substituted by any one of the four CSR conditions: "community and philanthropic support," "human rights and ethical conduct," "employee development and support," and "environment sustainability".

[4] The list of measures in demographic and additional information section: age, gender, race, type of current working institution, religion affiliation, political affiliation, nonprofit working experiences, volunteering and donation experiences, family income, marital/relationship status, number of children, personal traits, social desirability.

Post-Study. After the participants completed the survey, they came to the research team to process their study payment outside the classroom. Researchers checked the answers on the screening questions in the first section of the questionnaire. If participants did not pass the screening questions, their questionnaires were discarded. Only participants who got the screening questions correct were perceived to be valid questionnaire takers and thus were included in our data analysis. Then, researchers processed their payment based upon their decision to purchase in the questionnaire. Participants who chose to purchase received a generic brand portable power bank and $15 in cash, whereas participants who decided not to purchase received the full study payment of $25 in cash. Participants then read the debriefing form which revealed the real purpose of the study, where they learned that the corporation was a hypothetical corporation and the product they just purchased was, in fact, a generic brand product. Participants were given an option to change their mind if they wanted to return the product and get a refund of $10. Only 7 out of 100 participants who decided to purchase in our study chose to return the products. We could not analyze these sub-results because the amount of change was too small to produce enough variance. Thus, in the data analyses later, we used the initial results of 100 as the number of participants who purchased the product.

RESULTS

Among the 210 participants, 100 (48%) decided to purchase the corporation's new product and 110 (52%) did not. There were no gender differences in *Decision to Purchase,* $\chi(1)=.06$, p=.81, Males=49%, Females=47%. There were also no differences by ethnicity in the purchase decision, $\chi(7)=3.94$, p=.79, Caucasian=51%, Asian American/Asian=36%, African-American=42%, and Hispanic/Latino=50%.

The results indicate that being in any of the CSR conditions was associated with a higher likelihood of purchasing the product than being in the control condition (see Figure 2 and 3).

Specifically, conducting CSR activities in the *Community and Philanthropic Support* domain increased the odds of purchasing the product by a factor of 20 than without CSR activities, holding all other variables constant.

Also, conducting CSR activities in the *Human Rights and Ethics* domain increased the odds of purchasing the product by a factor of 39 than without CSR activities, holding all other variables constant.

Moreover, conducting CSR activities in the *Employee Development and Support* domain increased the odds of purchasing the product by a factor of 62 than without CSR activities, holding all other variables constant.

Additionally, conducting CSR activities in the *Environmental Sustainability* domain increased the odds of purchasing the product by a factor of 49 than without CSR activities, holding all other variables constant.

Taken together, the results of the CSR effects on the dependent variables indicate two critical findings First, our study shows that all forms of CSR positively shape consumer buying behavior. Second, we find that that consumers are more likely to purchase products from companies that commit to CSR activities in the *Environmental Sustainability*, *Employee Development and Support*, and *Human Rights and Ethics* domains compared to CSR activities in the *Community and Philanthropic Support* domain.

"Our study shows that all forms of CSR positively shape consumer buying behavior."

Our study extends the previous literature by investigating whether CSR affects consumers' actual purchasing behavior. Previous studies have primarily focused on consumers' CSR purchasing intentions (Peloza et al. 2015; Gupta et al. 2006; Vanhamme et al. 2012; and Sen et al. 2001), while our study moves the CSR marketing research forward by providing the evidence of consumers' actual purchasing decisions. Although the aim of our study is not to examine whether consumers' purchasing intentions could translate into their actual purchasing behavior (Carrington et al., 2014; Sen et al., 2016), our results contribute to the literature by reducing the doubt regarding consumers' real interests (i.e., actual purchasing behavior) in CSR-related products.

DOES CSR WORK BETTER IN ONE DOMAIN THAN IN ANOTHER?

In the literature, little has been known about whether the impact of CSR on purchasing behavior varies across different domains. Our study built on the previous research on consumers' perceptions (Öberseder et al., 2014) to investigate this issue. We found that the differences among domains were trivial without controlling for the covariates, such as the product impression, personality trait, and demographic characteristics. However, after controlling for these covariates, the differences of CSR's impact on purchasing behavior were magnified and significant. Specifically, CSR activities in the *Employee Development* and *Environmental Sustainability* domains were most effective in driving consumers' purchasing behavior after controlling for the covariates. This finding extends Öberseder et al. (2014)'s research finding and suggests that consumers are most likely to purchase from the corporation with CSR activities to help the development of the environment or the corporation's employees.

LIMITATIONS

Our study has, at least, two limitations. The first limitation is related to the product type that we used in our experiment. The use of the portable charger (an electronic device) may underestimate consumers' prosocial reactions to ethically produced products. For example, consumers might be significantly more sensitive to an ethically produced product than a regular portable charger. Second, we recruited college students for this study. Even though our experiment attempted to simulate the context of real purchasing decision-making, a sample of college students is more homogeneous than the broader population in terms of income, age, education level, etc. Thus, our study findings may not be generalized to a more heterogeneous sample. For example, purchasing a portable charger in support of the corporation's CSR may sound more attractive to one group (e.g. college students) than the other (e.g. senior people). In other words, age and the product type may moderate the effects of CSR on purchasing behavior. Therefore, readers should be aware of these limitations when interpreting the results of our study.

"Evidence of the kind presented here – that this work can actually shape purchasing behavior – may be helpful in terms of generating broader and sustained support of CSR among senior leadership."

CONCLUSION

Our findings reflect the multi-faced nature of CSR and consumers' preferences of the corporations' social responsibility domains. In short, our study adds to the literature by providing new evidence regarding the effects of CSR on purchasing behavior and the differences of the CSR impact across different domains, controlling for a number of external factors. The findings suggest important implications to the field. Specifically, corporations should be aware of the importance of CSR activities in different domains when designing CSR initiatives if their goal is to impact the company's bottom line sales. Our findings suggest that domains in the *Environmental Sustainability* and the *Employee Development and Support* are most effective in promoting purchasing behavior. For some companies, the business case for CSR will be more important than for others. There will always be companies that do CSR just because they believe it is the right thing to do. However, if a company does want to connect its CSR work with the sales function of the firm, evidence of the kind presented here – that this work can actually shape purchasing behavior – may be helpful in terms of generating broader and sustained support of CSR among senior leadership.

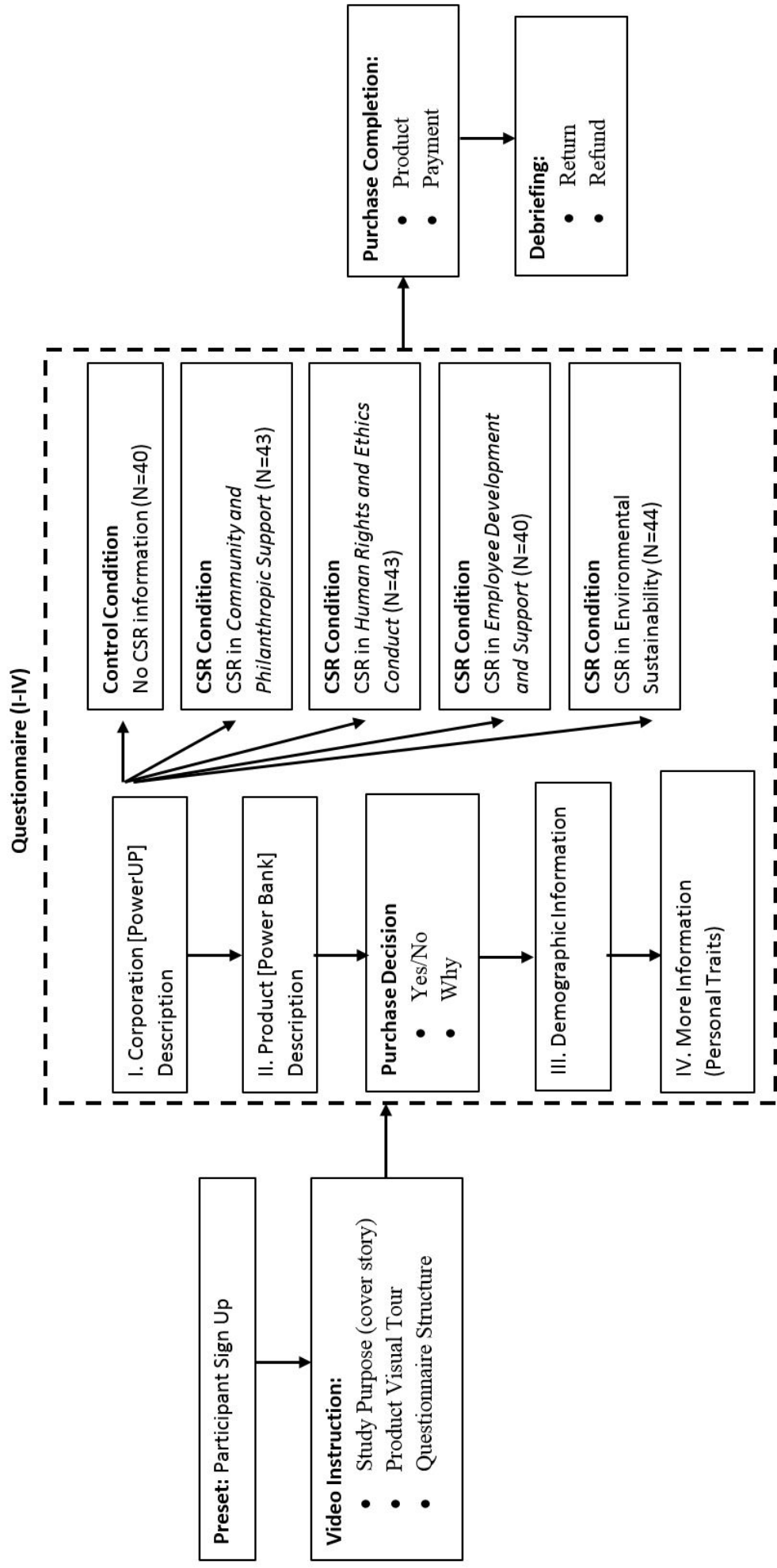**Figure 1: Study Design and Procedure**

Selection of Corporation's Objective

profit maximum only   social mission
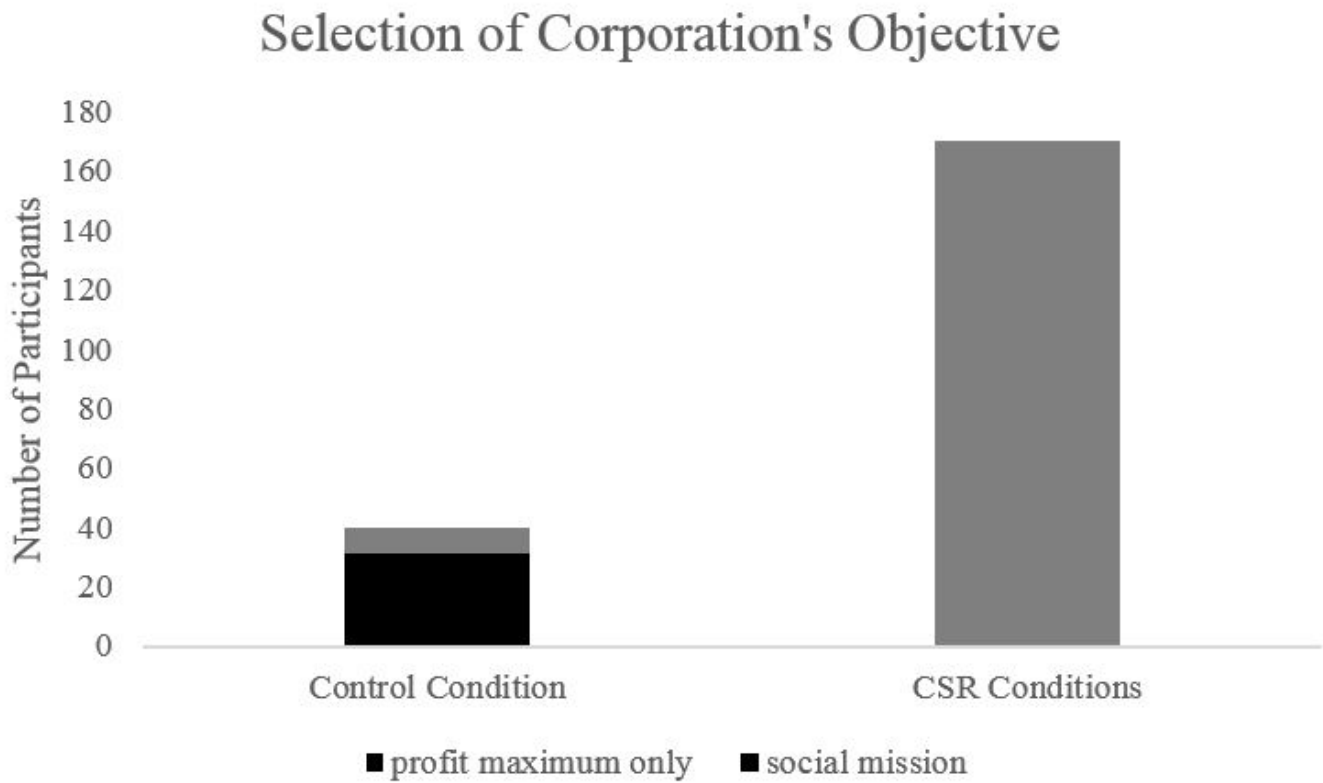
Figure 3: Decision to Purchase across different conditions

Purchase %

Control Condition: No CSR Information

Founded in 1998, PowerUp has grown steadily and has redefined a key segment of the electronic accessories market. The corporation's new product, Universal External Power Bank, which is a small, lightweight mobile device, allows consumers to charge any device when there are no outlets present. By hiring talented engineers and product designers, PowerUp has steadily improved the performance of all its product over time. PowerUp has a loyal following among users and word of mouth drives a large portion of the corporation's sales, which have increased steadily over the past two decades. PowerUp also provides replacement parts to many consumer electronics and has built over time a broader array of portable accessories for phones, laptops and tablets.

*In the following four CSR conditions, the message was the same as it was in the control condition. Plus, each CSR condition had additional information below.

CSR Condition: CSR in Community and Philanthropic Support

As a result of its growing success within the high-tech field, the corporation initiated a corporate social responsibility (CSR) program focused on **Community Philanthropic Support**.

Since 2008, PowerUp has established a grants program designed to help nonprofits in the communities where the corporation has manufacturing and sales offices. The corporation's grants program promotes the well-being and education of at-risk children. PowerUp has worked with communities to establish afterschool mentoring and tutoring programs for vulnerable children so they can achieve their full potential in school and life. The local nonprofits that operate these programs receive multi-year grants from the corporation to grow and improve their services. PowerUp makes these grants to give back to the communities where many of its workers live.

CSR Condition: CSR in Human Rights and Ethics Conduct

As a result of its growing success within the high-tech field, the corporation initiated a corporate social responsibility (CSR) program focused on **Human Rights and Building an Ethical Supply Chain.**

Since 2008, PowerUp has taken a close look at how the materials it uses in its products are produced and what goes on in the factories overseas where these parts are produced. The corporation hired outside consultants to scrutinize all aspects of its supply chain and to make recommendations on how it could be improved so as to make the lives of the workers in the overseas factories better. PowerUp now requires all its partners to sign a code of ethics and human rights relating to the pay of its workforce

and certifying that no child labor is involved in the production of any materials shipped to PowerUp. These agreements are subject to random on-site inspections of all factories overseas. Failure to meet the terms of these agreements results in immediate termination of the business relationship. As a result of its work to protect human rights and to establish an ethical supply chain, PowerUp has been featured in news reports and many other high-tech corporations have emulated its ethical and human rights protocol.

CSR Condition: CSR in Employee Development and Support

As a result of its growing success within the high-tech field, the corporation initiated a corporate social responsibility (CSR) program focused on **Employee Development and Support.**

From its founding to the present, PowerUp has sought to be a leader in the domain of employee treatment, development, and benefits. All corporation employees enjoy 3 weeks paid vacation, ample sick time, and 5 personal days a year. Paid maternity and paternity leaves are granted for a period of 6 months. In an effort to retain and develop talent inside the corporation, PowerUp gives all employees a professional development budget to pay for training and courses that will help them grow their skill sets. Finally, all new employees are invited to take part in a mentoring program run by the corporation's senior managers. The program helps PowerUp's workers learn what it will take to advance within the corporation and to contribute successfully to the firm. Employees are encouraged to volunteer up to 60 hours a year with local nonprofits and can do so during the work week without needing to take time off. Finally, all PowerUp employees can have their personal charitable gifts to nonprofit organizations matched by the corporation on a 1-1 basis.

CSR Condition: CSR in Environmental Sustainability

As a result of its growing success within the high-tech field, the corporation initiated a corporate social responsibility (CSR) program focused on **Environmental Sustainability.**

Over the past decade, PowerUp has sought to be a leader in the domain of environmental sustainability. With the support of its board and senior leadership, the corporation has undergone a profound change in the way it handles waste and in the way it controls the emissions of its plants. Operating from its LEED certified headquarters building that is powered by 80 percent solar energy, PowerUp worked to reduce the waste its produces annually from 80 tons a year to 15 tons a year. These gains were achieved by instituting an aggressive recycling plan that diverts all recyclable material from the waste into containers that are delivered to local recyclers. In addition, the corporation has overhauled it factories to substantially reduce carbon emissions by 65 percent. Working with local environmental groups, the corporation holds regular meetings to search for input on other changes it can make to improve its sustainability practices. Last year, PowerUp was recognized by E-Accessory Magazine with a blue-ribbon award for environmental progress.

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