

The Impact of Retailers' Corporate Social Responsibility on Price Fairness Perceptions and Loyalty

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MOTIVATION (1)

- ❖ Growing investment of money and corporate attention in CSR programs.
- ❖ Objective is to strengthen relationships with customers, employees, community, investors.
- ❖ Important to understand the return on CSR efforts.
- ❖ Plenty of cross-industry “macro” research relating CSR to firm financial performance.
- ❖ Mixed results, but effect is positive on average (reviews by Margolis & Walsh 2003; Orlitzky, Schmidt, & Rynes 2003).

MOTIVATION (2)

- CSR is multidimensional. Not all CSR initiatives work equally.
- Which ones work well may differ by industry and by stakeholder (Godfrey & Hatch 2007; Raghurir et al. 2010).
- Customer is a primary stakeholder, whose response to CSR directly drives financial impact.
- Lab experiments show higher purchase intent and WTP when firm is viewed as socially responsible, with significant heterogeneity in response (Bhattacharya & Sen 2004; Brown & Dacin 1997; Sen & Bhattacharya 2001; Trudel & Cotte 2009)
- But what about real purchase behavior in the market? The impact of different CSR dimensions? The trade-off between CSR and other attributes of the firm's offering (Sen & Bhattacharya 2001)?

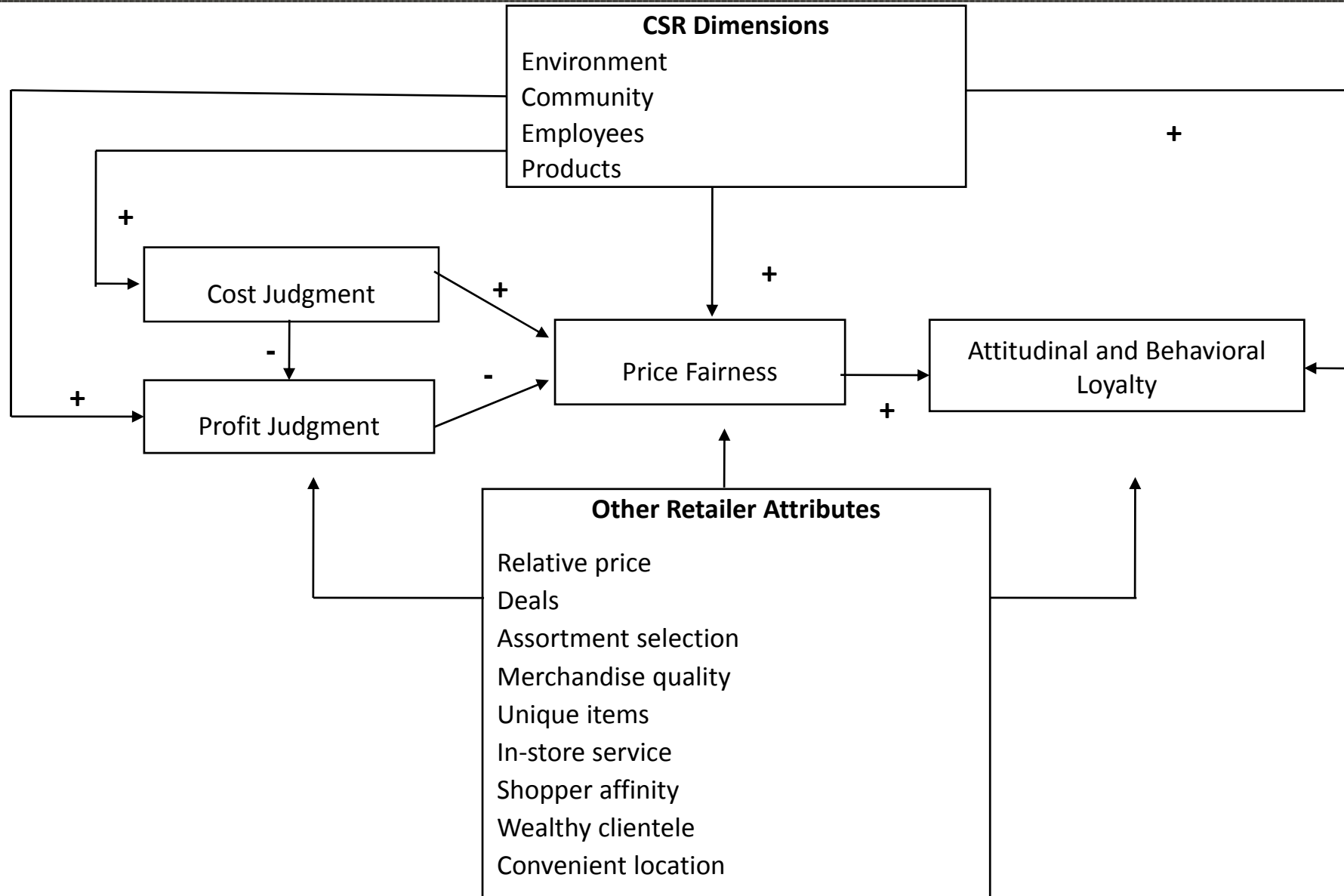
OUR RESEARCH QUESTIONS

- Measure the effects of CSR on attitudinal loyalty, behavioral loyalty, and the consequent leverage to charge a price premium.
- Do this in the grocery retail field setting while accounting for unobserved heterogeneity in CSR effects and controlling for other drivers of customer choice.
- Examine how these effects differ across key CSR dimensions for a retailer.
- Investigate the role of price fairness perceptions in these effects.

ROLE OF PRICE FAIRNESS

- Consumers respond not just to level of price but to how fair they perceive that price to be (Bolton, Warlop, & Alba 2003; Campbell 1999; Martin, Ponder, & Lueg 2009).
- A higher price attributed to higher costs is perceived as more fair, while a higher price attributed to higher profit is perceived as less fair (Bolton, Warlop, & Alba 2003; Kahneman, Knetsch, & Thaler 1986; Xia, Monroe, & Cox 2004).
- In general, positive motives for increasing price are perceived as more fair than negative motives and consumers give the benefit of the doubt to firms with a good reputation when inferring motives (Campbell 1999).

OUR FRAMEWORK



DATA

- Survey of ≈ 2900 members of a grocery retailer's LP.
- Perceptions of the focal retailer and a competing retailer on:
 - Four CSR dimensions
 - Price level and price fairness
 - Other retailer attributes like in-store service, assortment, product quality
 - Attitudinal loyalty
 - Share of grocery wallet spent
- Eight competing retailers in the market are covered.
- SOW at “other” retailers: Mean=9.3%; Median =0%

MEASURES

CSR:

I believe that Retailer A treats employees fairly.

I believe that Retailer A has environmentally friendly policies.

I believe that Retailer A cares about the local community.

I believe that Retailer A offers a large selection of local products

Cost & Profit Judgment:

Retailer A's labor and product costs are probably higher than other stores.

Retailer A's profits are probably higher than other stores.

Price Fairness:

Prices at Retailer A are fair.

For what Retailer A offers, the prices they charge are reasonable.

Attitudinal Loyalty:

I consider myself a loyal customer at Retailer A.

I would recommend Retailer A to my friends.

I would go out of my way to shop at Retailer A.

Behavioral Loyalty:

In the last 6 months, what percentage of your grocery spending was in Retailer A? (0-100%)

ALLEVIATING COMMON METHOD BIAS

- The key dependent variable (SOW) precedes independent variables in the survey, alleviating bias due to cognitive consistency.
- Order of items relating to CSR, attitudinal loyalty, and all other retailer attributes completely randomized across respondents.
- SOW is measured using a completely different measurement scale than the retailer perceptions serving as independent variables.
- SOW correlates strongly with actual purchase data taken from the transaction database of the focal retailer (0.60 to 0.70).

CSR PERCEPTIONS ACROSS THE EIGHT RETAILERS

Retailer	Sample Size	Employee Fairness	Environmental Friendliness	Community Support	Local Sourcing
A	2738	4.09 (0.02)	4.57 (0.01)	4.71 (0.01)	4.57 (0.01)
B	458	3.00 (0.03)	2.75 (0.03)	2.75 (0.04)	2.18 (0.04)
C	627	3.02 (0.02)	2.76 (0.03)	2.82 (0.03)	2.37 (0.04)
D	308	2.89 (0.03)	2.49 (0.05)	2.41 (0.05)	1.50 (0.04)
E	185	3.09 (0.05)	3.01 (0.06)	3.07 (0.08)	2.58 (0.07)
F	175	2.35 (0.07)	2.34 (0.07)	2.45 (0.08)	1.50 (0.06)
G	105	3.18 (0.08)	2.90 (0.08)	3.18 (0.09)	2.41 (0.10)
H	53	2.76 (0.11)	2.42 (0.12)	2.60 (0.15)	1.98 (0.15)

Note: Mean values on a scale of 1 to 5 (higher rating => more favorable perception). Standard errors in parentheses.

DRIVERS OF COST AND PROFIT JUDGMENT

<i>Dependent Variable</i>	<i>Cost Judgment</i>		<i>Profit Judgment</i>	
<i>Focal Variables</i>				
Employee fairness	0.172 ***	(0.014)	-0.078 ***	(0.014)
Environmental friendliness	0.090 ***	(0.017)	-0.025	(0.017)
Community support	-0.012	(0.017)	-0.084 ***	(0.016)
Local sourcing	0.095 ***	(0.016)	-0.038 **	(0.015)
Cost judgment	--		0.036 ***	(0.011)
<i>Control variables</i>				
Relative price	--		0.073 ***	(0.010)
Assortment	-0.016	(0.011)	0.040 ***	(0.012)
Quality	0.031	(0.021)	-0.017	(0.020)
Unique items	0.034 ***	(0.013)	-0.018	(0.012)
In-store experience	0.003	(0.018)	0.052 ***	(0.018)
Deals	--		-0.002	(0.013)

*** $p < .01$, ** $p < .05$, * $p < 0.10$. Standard errors are in parentheses.

Model also includes seven retailer dummy variables.

DRIVERS OF PRICE FAIRNESS (1)

Focal Variables

Employee fairness	0.075***	(0.012)
Environmental friendliness	0.023	(0.014)
Community support	0.072***	(0.014)
Local sourcing	-0.031**	(0.013)
Cost judgment	-0.006	(0.011)
Profit judgment	-0.088***	(0.010)
Employee fairness * Relative price (RP)	0.007	(0.010)
Environmental friendliness * RP	0.003	(0.012)
Community support * RP	0.012	(0.012)
Local sourcing * RP	-0.020	(0.011)
Cost judgment * RP	0.027***	(0.009)
Profit judgment * RP	-0.088***	(0.010)

*** $p < 0.01$, ** $p < .05$, * $p < .10$. Standard errors are in parentheses.
 Model also contains seven retailer dummy variables.

DRIVERS OF PRICE FAIRNESS (2)

Control variables

Relative price (RP)	-0.182***	(0.009)
Assortment	0.076***	(0.010)
Quality	0.169***	(0.017)
Unique items	0.019*	(0.010)
Deals	0.290***	(0.011)
In-store experience	0.131***	(0.015)
Wealthy clientele	-0.101***	(0.011)
Shopper affinity	0.069***	(0.010)
Assortment * RP	0.013*	(0.008)
Quality * RP	-0.009	(0.014)
Unique items * RP	0.024***	(0.008)
Deals * RP	0.025***	(0.008)
In-store experience * RP	0.002	(0.012)
Wealthy clientele * RP	-0.057***	(0.009)
Shopper affinity * RP	0.034***	(0.008)

*** $p < 0.01$, ** $p < .05$, * $p < .10$. Standard errors are in parentheses.

Model also contains seven retailer dummy variables.

DRIVERS OF CUSTOMER LOYALTY

	Attitudinal Loyalty		Share of Wallet	
<i>Focal variables</i>				
Employee fairness	0.014	(0.009)	0.016 ^{***}	(0.005)
Environmental friendliness	0.041 ^{***}	(0.011)	-0.009	(0.006)
Community support	0.081 ^{***}	(0.011)	-0.006	(0.006)
Local sourcing	0.039 ^{***}	(0.010)	0.018 ^{***}	(0.005)
Price fairness	0.184 ^{***}	(0.010)	0.035 ^{***}	(0.005)
<i>Control variables</i>				
Relative price	-0.063 ^{***}	(0.008)	-0.039 ^{***}	(0.004)
Assortment	0.026 ^{***}	(0.007)	0.006	(0.004)
Quality	0.258 ^{***}	(0.013)	-0.016 ^{**}	(0.007)
Unique items	0.044 ^{***}	(0.008)	-0.028 ^{***}	(0.004)
Deals	0.052 ^{***}	(0.009)	0.021 ^{***}	(0.005)
In-store experience	0.213 ^{***}	(0.012)	0.040 ^{***}	(0.007)
Wealthy clientele	-0.033 ^{***}	(0.009)	-0.021 ^{***}	(0.004)
Shopper affinity	0.135 ^{***}	(0.007)	0.051 ^{***}	(0.004)
Location convenience	0.022 ^{***}	(0.005)	0.054 ^{***}	(0.003)

MAGNITUDE OF THE BENEFIT FROM CSR

<i>CSR Dimensions^a</i>	SOW			Price Premium		
	Direct Effect	Indirect Effect	Total Effect	Direct Effect	Indirect Effect	Total Effect
Employee fairness	1.57%	0.28%	1.84%	10.6%	1.9%	12.5%
Environmental friendliness	-1.06%	0.10%	-0.96%	-7.2%	1.0%	-6.2%
Community support	-0.74%	0.34%	-0.40%	-5.0%	2.3%	-2.7%
Local sourcing	2.59%	-0.14%	2.45%	17.6%	-1.0%	16.6%

Notes: Numbers in bold are based on estimates that are statistically significant at $p < 0.05$.

^aAll effects are calculated for a one standard deviation increase in the CSR dimension.

CONCLUSIONS

- CSR has a significant effect on consumer loyalty, which in turn can allow a retailer to charge a price premium.
- But, not all CSR dimensions are equal.
- Consumers' SOW is positively affected by CSR dimensions that are “closer” to their own exchange with the retailer – employee fairness and local sourcing of products.
- Broader dimensions like environmental friendliness and community support drive positive attitudes but not purchase behavior.
- A one std. deviation (1-1.4 units on a scale of 1-5) improvement in perception of employee fairness or local sourcing can increase SOW by 1.8 to 2.5 ppts.
- If the retailer increases price to leverage this loyalty, the translation is to a 12.5% to 16.6% price premium.

FUTURE RESEARCH

- Investigate difference in CSR effects for attitude vs. behavior.
- Other mechanisms for loyalty benefit besides price fairness.
- Examine segments of consumers who respond differently.
- Impact of each CSR dimension on other stakeholders.
- And in other industries.