

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

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

## **Abstract**

We study the effects of four key dimensions of Corporate Social Responsibility in the grocery retail industry on consumers' perceptions of the fairness of retailers' prices and their attitudinal and behavioral loyalty toward retailers. We estimate both the direct effect of CSR on loyalty and the indirect effect through price fairness perceptions, while controlling for other drivers of price fairness perceptions and loyalty and for heterogeneity in CSR response. We find that all CSR efforts do not garner equal rewards – both the direct and indirect effects vary significantly across the four CSR dimensions we study. Only those CSR initiatives that are related directly to the products consumers buy and the employees who serve them bring statistically and managerially significant returns in behavioral loyalty. A one standard deviation increase in consumer perceptions of such CSR initiatives leads to a gain in share of wallet of up to 2.5 percentage points or a price premium of up to 17%. Further, the indirect effect through price fairness perceptions can account for up to 15% of the total gain in SOW or a 2% price premium.

**Keywords:** Corporate Social Responsibility (CSR); Retail Store Patronage; Price Fairness; Attitudinal and Behavioral Loyalty.

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

Corporate social responsibility (CSR) refers to a firm's moral, ethical and social obligations beyond its own economic interests (Brown and Dacin 1997; McWilliams and Siegel 2001; Mohr, Webb, and Harris 2001). As CSR gains strategic importance in the eyes of senior management, companies are engaging in a wide range of CSR programs like environmental sustainability, community support, cause-related marketing, and employee enablement. They are investing significantly in publicizing their CSR initiatives with the objective of strengthening relationships with key stakeholders including employees, customers, investors, and the broader community. But, CSR programs themselves are often costly (e.g., Wal-Mart donated more than \$512 million in cash and in-kind gifts between Feb. 2009 and Jan. 2010) and, as noted by Luo and Bhattacharya (2009) and others, they compete for resources that can alternatively be channeled to other areas such as innovation or service improvement. Not surprisingly, therefore, both academics and practitioners grapple with the question of what the returns are to CSR efforts.

One way to assess returns is by examining financial performance. Despite a large body of empirical research, the jury is still out regarding the impact of CSR efforts on a firm's financial performance. Most studies use the Kinder, Lydenburg, Domini (KLD) index of corporate social performance to quantify CSR efforts. KLD is created by an independent rating agency covering a cross-section of 800 large firms including the S&P 500. The majority of these studies show a positive effects, and recent work demonstrates that CSR also reduces firm-specific risk (Luo and Bhattacharya 2009). But some researchers also reported a substantial number of insignificant and even negative effects, and methodological and theoretical criticisms of the studies abound (see

Margolis and Walsh 2003 and Orlitzky, Schmidt, and Rynes 2003 for reviews). These mixed results are attributable in part to the fact that CSR has several dimensions whose impact varies across industries, stakeholder groups, and individuals within a stakeholder group (e.g., Berman et al. 1999; Hillman and Keim 2001; Sen and Bhattacharya 2001). Accordingly, as Godfrey and Hatch (2007) and Raghuram et al. (2010) note, there is a need to conduct industry-specific studies and to distinguish between different dimensions of CSR as well as between different stakeholders.

One of the firm's most relevant stakeholders is its customers. Social identity theory and consumer-company identification research suggest that consumers should embrace the more positive and distinctive identity of a company that engages in CSR, thus enhancing their own self-consistency and self-esteem (e.g., Bhattacharya and Sen 2003; Sen and Bhattacharya 2001). Thus, customers should reward such companies with greater attitudinal and behavioral loyalty and also higher willingness to pay, ultimately enhancing the firm's financial value.

In contrast with the work on financial performance, there is much less research on how customers respond to CSR efforts. The majority of this work has studied the link between CSR and attitudinal loyalty, particularly consumers' evaluations of the firm and/or its products. Consumer polls paint a rosy picture for CSR initiatives, but they likely suffer from social desirability bias and a host of other validity concerns (see Auger et al. 2003 and Cotte and Trudel 2009 for critiques of these polls). Academic work shows that, by and large, consumers have more favorable attitudes towards socially responsible companies. It also demonstrates that there is considerable heterogeneity in this relationship (e.g., Barone, Miyazaki, and Taylor 2000; Bhattacharya and Sen 2004; Brown and Dacin 1997; Sen and Bhattacharya 2001).

While this research has enriched our understanding of consumer response to CSR, it is largely based on laboratory experiments. The studies usually present subjects with a description of a company's CSR record and then measure their attitudes towards the company and/or purchase likelihood. Given the salience of the CSR information in the experimental environment, its impact may be overstated compared to the real-life purchase environment in which a myriad of other factors – product quality, price, assortment, convenience, etc. – influence choice. In short, the external validity of this body of work may be limited by not studying actual marketplace behavior, leading researchers like Sen and Bhattacharya (2001) to call for more research based on field data collected in actual marketing environments.

Another managerially important link is between consumers' perceptions of firms' CSR performance and their willingness to pay for their products. The empirical evidence here is limited and also mixed. Using conjoint-type choice experiments, Auger et al. (2003) show that consumers on average place significant value on ethical product features, though willingness to pay a premium varies across consumers and across ethical features. Trudel and Cotte (2009) report that subjects in their experiments are willing to pay a 5-10% premium for ethical products. Interestingly, both sets of researchers find that the price discount punishment for "bad ethical" features is much bigger than the price premium reward for "good ethical" features, again showing the importance of the specific CSR initiative being evaluated. Additionally, Bhattacharya and Sen (2004) conclude, based on focus group and experimental research, that consumers are unwilling to trade off CSR for core attributes such as price. Indeed, they surmise that this reluctance to compromise on core attributes is "one of the main reasons why CSR initiatives result in positive company attitudes that do not, in turn, translate into greater purchase behavior".

The research cited above focuses much more on “whether” CSR affects price premiums than on “why”. Yet, understanding *why* these effects occur is crucial for generating insights on how to enhance the effectiveness of CSR initiatives. Reasons such as customers’ personal connection to the particular CSR cause and consumer-company identification have been noted in prior work. However, the role of price fairness perception has not been examined as a potential mechanism through which CSR affects loyalty and price premium. The price fairness literature shows that consumers respond not only to the price level but also to how fair they perceive it to be; it also demonstrates that consumers consider a higher price level to be more fair if the price differential can be attributed to costs rather than profits – and, more generally, if they can be attributed to positive motives rather than negative ones (e.g., Campbell 1999a, b; Kahneman, Knetsch, and Thaler 1986a, b). Since CSR efforts are generally believed to increase a firm’s cost and provide customers with a basis for attributing higher prices to a positive, prosocial motive, they may improve perceived fairness of the firm’s prices, which can, in turn, translate to enhanced attitudes and loyalty toward the firm. In summary, price fairness may play a mediating role in converting positive CSR perceptions into higher loyalty and willingness to pay.

The above discussion motivates the objectives of our research: (i) Measure the effects of CSR on attitudinal loyalty, behavioral loyalty, and the consequent willingness to pay a price premium in a field setting, while controlling for other drivers of customer preferences and decisions; (ii) Show how these effects differ across key CSR dimensions in a given industry; and (iii) Investigate the role of price fairness perceptions in these effects.

We accomplish this by proposing a conceptual framework in which price fairness mediates the CSR-loyalty relationship and studying the impact of four key CSR dimensions in the grocery retail industry on consumers’ attitudinal and behavioral loyalty. We estimate the direct and

indirect effects of CSR on loyalty and use those estimates to calculate price premiums, thus quantifying the total impact of the CSR dimensions. The four CSR dimensions examined are: treatment of employees, environmental friendliness, community support, and local sourcing. The focus on a specific industry is important given the aforementioned problems with cross-industry analysis. We survey consumers in a geographical market to measure their perceptions of CSR performance, price fairness, and other store attributes of all major grocery retailers in that market, as well as to measure their attitudinal and behavioral loyalty to these retailers. The retailers vary significantly in their CSR images as well as in other factors (such as price, assortment and in-store service) that drive consumers' store patronage.

Previewing our key results, we find that: (1) Almost all the CSR dimensions significantly improve attitudinal loyalty towards the retailer. However, such attitudes do not always translate into behavioral loyalty. Specifically, CSR dimensions that influence the customers' own exchange with the retailer (fairness to employees and local sourcing) exert positive effects on behavioral loyalty and price premium, while those not directly related to the customer-firm exchange (environmental friendliness and community support) do not; (2) The positive impact on behavioral loyalty is non-trivial – there is a gain of up to 2.5 percentage points in share of wallet per standard deviation improvement in CSR perception (in an industry where one percentage point in market share can be worth millions); (3) CSR can enable price premiums of up to 17%; and, (4) Up to 15% of the share of wallet gain and up to 2% in price premiums are attributable to the indirect effect through price fairness perception.

Overall, our field-based study shows, for an industry that represents a major sector of the economy (\$354 billion in 2009), that some CSR activities exert an important impact on actual customer behavior, and that price fairness perceptions are an important part of the puzzle of *why*

CSR activities affect loyalty and price premiums. In doing so, we wed the literature on price fairness to an area where it has not previously been applied – the impact of CSR activities.

The rest of our paper is organized as follows. We first develop our conceptual framework and describe the data used for our analysis. This is followed by a presentation of our results and we conclude our paper with a discussion of the implications for researchers and managers.

### **Framework Development**

Figure 1 depicts the five dependent variables in our framework: cost judgment, profit judgment, price fairness, and customer loyalty (attitudinal and behavioral). The focal independent variables are consumers' perceptions of various dimensions of a retailer's CSR. The figure shows how CSR may affect loyalty through each of these dependent variables and summarizes the hypothesized signs for all the paths. Although the focus of our study is on the relationship between CSR, price fairness and loyalty, we must control for the other variables that affect these constructs. A review of the retailing and store image literature shows that the attributes that influence consumers' image and patronage of a retail store can be categorized into a few key dimensions – assortment, product quality, prices and deals, in-store experience, and convenience of location (e.g., Ailawadi and Keller 2004; Baker et al. 2002; Lindquist 1974; Mazursky and Jacoby 1986). We include measures of these retailer attributes as control variables in our model and discuss them below although. They are also listed in Figure 1 but their hypothesized effects are not shown for simplicity of exposition.

< Insert Figure 1 about Here >

*Determinants of Cost Judgment.* Most consumers have little knowledge about a grocery retailer's actual costs but can form judgments about them based on observable factors that are



likely to drive costs up or down. Assuming that a retailer's CSR efforts are communicated to customers, they are likely to view such efforts (e.g., offering fair wages to employees, adopting environmentally friendly policies) as increasing the retailer's costs. Therefore, we expect consumers' CSR perceptions to have a positive effect on cost judgment. In addition, consumers may expect certain retailer attributes such as larger and higher-quality product assortments and better in-store service to drive up the costs of the retailer.

*Determinants of Profit Judgment.* Similar to costs, most consumers have little knowledge about a retailer's profit. But they can assess its profitability based on their judgment of the retailer's costs, prices and deals. We expect a negative effect of cost judgment and deals and a positive effect of price on profit judgment. In addition, we allow the CSR dimensions and other store attributes that drive costs to affect profit judgment since their effects may not be fully mediated by costs.

*Determinants of Price Fairness.* Price fairness refers to a consumer's subjective judgment about whether a price is reasonable, justifiable, or acceptable. The price fairness literature demonstrates that consumers' purchases (actual or intended) depend not only on relative price levels but also on how reasonable or justifiable those prices are perceived to be (Bolton, Warlop, and Alba 2003; Campbell 1999a,b; Martin, Ponder, and Lueg 2009). Clearly, the price of a retailer relative to competitors affects perceived price fairness, but prior research has shown that fairness perceptions also depend on whether consumers attribute the price differences to cost differences or to profit motives. Specifically, 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, and Alba 2003; Kahneman, Knetsch, and Thaler 1986b; Xia, Monroe, and Cox 2004). Thus, we expect cost judgment to have a positive main effect on perceived price fairness

and also to interact positively with relative price level. Analogously, we expect profit judgment to have a negative main and interaction effect.

In addition to these economic attributions, CSR is expected to have a direct positive impact on price fairness since it may improve a firm's reputation. Price fairness research has shown that 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 1999b). Theories on social justice and corporate identity also posit that the relationship between a consumer and a firm consists of both an exchange dimension, based on consumers' own utility, and a citizenship dimension, influenced by social values (David, Kline, and Dai 2005). Consequently, perceived price fairness should be affected not only by the value that the consumer herself obtains from this exchange but also how value is distributed among other stakeholders such as employees, the broader community, or the environment.

Similarly, other retailer attributes can have main and moderating effects on price fairness. For instance, high prices should be more acceptable when the in-store social environment, comprising other customers and service level, is positive; when the store offers attractive deals and assortment; and when product quality is high (Grewal and Baker 1994).

*Determinants of Consumer Loyalty:* The CSR research reviewed previously leads us to expect a positive direct effect of CSR dimensions on loyalty. It also leads us to expect a more positive effect on attitudinal loyalty than on behavioral loyalty. The other retailer attributes are also expected to have direct effects on both attitudinal and behavioral loyalty. Based on prior evidence that perceived price fairness influences consumers' purchase intent, willingness to pay, and the relationship with a firm (Bolton, Warlop, and Alba 2003; Campbell 1999a; Martin, Ponder, and Lueg 2009), we also expect a direct positive effect of price fairness on both loyalty

metrics. Finally, we expect convenient access to the store to increase loyalty although this attribute does not affect the other dependent variables listed above.

*Differential Impact of Specific CSR Dimensions:* The literature generally follows the KLD classification of CSR into six dimensions – employee relations, diversity, community support, environment, products, and non-US operations, and response to CSR initiatives depends partly on which dimension(s) they tap. Consumers respond more positively to the CSR initiatives that they personally support (Sen and Bhattacharya 2001) and to initiatives that are integrated into the core positioning of the firm/brand (Du, Bhattacharya, and Sen 2007). They may also respond more positively to CSR initiatives that are intrinsic to their exchange with the firm, i.e., have a direct impact on their experience with the firm, e.g., by improving the products they buy or the purchase experience (Bhattacharya and Sen 2004).

Two of the four CSR dimensions we study, treating employees fairly and offering locally sourced products, are *intrinsic* to the exchange: they affect the human (i.e., employees) and the goods (i.e., local products) elements respectively. The other two dimensions, supporting the community and adopting environmentally friendly policies, are *extrinsic* to the exchange: they contribute to broad social good but are not directly tied to the exchange between the customer and the retailer. The intrinsic dimensions are likely to have a stronger impact on loyalty. However, it may be that consumers perceive some CSR dimensions as being more costly than others, or justifying high prices more than others. Absent prior research on these issues, we do not propose specific hypotheses about the differential impact of specific CSR dimensions, and treat it as an empirical question in our analysis.

## Data

The data for our analysis come primarily from a survey administered to customers of a grocery retail chain located in the northeastern U.S. This “focal” retailer positions itself as a socially responsible retailer, not just engaging in some CSR initiatives but actually integrating them into its business strategy (e.g., Du, Bhattacharya and Sen 2007). With the retailer’s cooperation, we mailed a letter to its approximately 16,000 active loyalty program members<sup>1</sup>, inviting them to participate in the survey that could be completed online or on paper. Paper copies were made available and collected at all of the retailer’s stores. The purpose of the survey was introduced in general terms (“to better understand and serve the needs of customers”) without mentioning corporate social responsibility or any other specific area. A lottery of ten gift certificates worth \$100 each, redeemable at area businesses, was used to encourage participation.

In total, 2,884 responses were obtained during the one-month period for which the survey was live (between April and May 2010), representing a response rate of about 18%. After incomplete responses were discarded, a final sample consisting of 2,738 respondents was used to estimate our model.<sup>2</sup>

The survey comprised four main sections. The first section collected information on the respondent’s share of wallet (measured as percentage of total grocery spending in the past six months) with the focal retailer as well as the seven major competing retailers in the area, including a mass merchandiser, a warehouse club, and various supermarket chains. We also allowed the respondent to indicate “other stores” not listed in the survey to accommodate the

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<sup>1</sup> “Active” members are defined as those who made at least one purchase at the retailer in the past six months.

<sup>2</sup> Respondents’ average spending at the retailer over the six month period prior to survey administration was higher than non-respondents (\$2174 with a standard deviation of \$2023 versus \$1514 with a standard deviation of \$1437).

possibility that consumers may do some of their grocery shopping at other stores. The median share of wallet (SOW) for the outside option is 0% with a mean of 9.3%, indicating that the eight retailers included in our study account for most of the respondents' grocery spending.

The second section asked for respondents' perceptions of the focal retailer on the key store attributes identified in the retailing and store image literature (such as merchandise quality and in-store experience), as well as on the four CSR dimensions that are relevant in the current empirical context – treating employees fairly, adopting environmentally friendly policies, supporting the community, and offering local products. All the perception items were rated on a five-point scale, and the ordering of the items was fully randomized across respondents.

The third section asked for respondent's perceptions of a second store on the same attributes. In the online version of the survey, the second store was randomly generated among the competing stores, if any, that receive at least 10% SOW from the respondent (based on their answers in the first section). This ensured that the respondent had some familiarity with the second store being evaluated. In the paper version of the survey, the identity of the second store was randomized across multiple versions of the questionnaire, and the respondent was instructed to skip this section if he or she was unfamiliar with the particular store.<sup>3</sup> The last section of the survey gathered standard demographic and psychographic information.

< Insert Table 1 about Here >

Table 1 presents measures of each variable in our study, along with their descriptive statistics and, for multi-item variables, their reliabilities.<sup>4</sup> To check the validity of the self-reported behavioral loyalty measure, we used loyalty program numbers to link respondents' survey data to

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<sup>3</sup> In total, 1911 respondents provided complete ratings for a second store.

<sup>4</sup> While multi-item measures may have been desirable for all constructs (although, see Bergkvist and Rossiter (2007) for findings to the contrary), survey length was an issue given the large number of constructs in our model and the need for each respondent to rate two retailers. Therefore, we decided to use single items for some control variables and for variables that are more concrete.

their purchase histories stored in the focal retailer's transaction database. The correlation between respondents' self-reported SOW at the focal retailer and their total spending there over the six-month period prior to survey administration is 0.61. The correlation with the total number of different product categories they buy at the focal retailer is even higher at 0.70. These correlations are much stronger than is typically reported between perceived and objective measures of variables (e.g., Bommer et al. 1995), and suggest that the self-reported measure of behavioral loyalty has strong validity.

< Insert Tables 2 and 3 about Here >

Table 2 presents the means of the four CSR dimensions for each of the eight retailers in our study (together with their standard errors), and shows that there is substantial variation across retailers, allowing us an opportunity to reliably estimate their effects. The focal retailer (Retailer A), in particular, receives the highest ratings on the CSR dimensions, consistent with its CSR-oriented business strategy. Although corresponding information for the other retailer attributes is not shown in order to conserve space, those, too, exhibit considerable variation across retailers. Table 3 presents correlations among key variables in our model. The strong correlations, especially between CSR dimensions and other retailer attributes, underscore the importance of controlling for the latter to ensure that the estimated effects of CSR are not biased due to omitted variables. But, the strong correlations also suggest the possibility of multicollinearity. We address both of these issues in our analysis.

In summary, these data offer several important advantages in achieving our research goals. First, like Lichtenstein, Drumwright, and Braig (2004), we survey a retailer's customers and assess both attitudinal and behavioral loyalty; however, unlike their work, our data set encompasses not only the focal retailer but also all major competing retailers in the market. As

noted by Du, Bhattacharya and Sen (2007) and Bhattacharya and Sen (2004), consumers respond to the CSR and other actions of a firm not in isolation but in the context of competitors' actions, so it is important to include competitor data in any analysis of consumer attitudes and purchase choices, especially when there is substantial variation across competitors. Second, consistent with the afore-noted calls for researchers to treat CSR as a heterogeneous set of firm activities rather than one monolithic measure, we assess the impact of distinct CSR dimensions relevant in the grocery retailing industry rather than combine them into one construct. Third, we account for other key retailer attributes that drive consumers' attitude and behavior. Fourth, concerns about common method bias are alleviated (Rindfleisch et al. 2008) because (1) the key dependent variable in our model, SOW, precedes the independent variables in the survey, thus preventing bias due to cognitive consistency; (2) the order of items relating to CSR, attitudinal loyalty, and all other store attributes is completely randomized across respondents; (3) SOW is measured using a completely different measurement scale than the retailer perceptions serving as independent variables; and (4) SOW correlates strongly with actual purchase data taken from the transaction database of the focal retailer.

### **Analysis and Results**

Following the framework in Figure 1, we estimate the effects of CSR dimensions and other store attributes on five outcome variables: cost judgment, profit judgment, price fairness, attitudinal loyalty, and behavioral loyalty (measured as share of wallet). The equation for each dependent variable is estimated using the 4535 non-missing observations pooled across respondents and retailers. We include retailer fixed effects to account for cross-retailer heterogeneity not captured by observable attributes. Furthermore, since previous research has reported significant heterogeneity in consumer response to CSR initiatives (e.g., Bhattacharya

and Sen 2004), we allow for random coefficients on the four CSR variables. We also allow for random coefficients on the price variables (relative price and price fairness), in line with previous empirical findings that consumers vary considerably in price sensitivity (e.g., Kamakura and Russell 1989; Keane 1997). The model is estimated using maximum simulated likelihood. In the results presented below, we report the mean coefficient estimates; the complete variance-covariance matrices of the random coefficients in each model are available from the authors upon request. We also computed variance inflation factors for all independent variables: none of them exceeded 5, showing that multicollinearity is not a concern despite certain high correlations between variables.

< Insert Table 4 about Here >

*Determinants of cost judgment and profit judgment.* Starting from the left-hand side of Figure 1, we first report the coefficients of the cost and profit judgment equations. The left panel of Table 4 pertains to the antecedents of cost judgment. Three of the four CSR dimensions – treating employees fairly, adopting environmentally friendly policies, and local sourcing – significantly increase consumers’ judgments of the retailer’s operational (i.e., labor and product) costs, supporting our hypothesis. Community support does not exhibit a significant effect, likely because community support may be perceived as a lump-sum expense rather than directly contributing to a retailer’s ongoing operational costs. Of the store attributes used as control variables, only availability of unique items significantly increases consumers’ cost judgments. Merchandise quality and in-store experience also have positive coefficients but are not statistically significant.

The right panel in Table 4 pertains to the factors that influence consumers’ perceptions of a retailer’s profit. Consistent with our hypothesis, all four CSR dimensions have negative effects



on perceived profit of the retailer (controlling for cost judgment and relative price), though one of them, environmental friendliness, is not significant. Thus, a firm's more favorable perception on CSR, in general, results in a public perception that it is less "profiteering". Also, as expected, a higher relative price is associated with higher perceived profits. Cost judgment has a positive coefficient, implying that retailers with higher costs (e.g., an upscale retailer) are also believed to enjoy a higher level of profitability. Among the other retailer attributes, assortment and in-store experience have direct positive effects on profit judgment, while the effects of merchandise quality, unique item availability and deals are insignificant once price and cost judgment are controlled for.

< Insert Table 5 about Here >

*Determinants of price fairness.* Table 5 reports estimates of the price fairness equation (see Figure 1), in which we investigate the direct effects of CSR, costs, profits, and other retailer attributes on price fairness. Two of the four CSR dimensions – employee fairness and community support – have the expected *direct* positive influence on perceived price fairness. (Environmental friendliness has a positive coefficient but is insignificant.) Local sourcing, on the contrary, has a negative direct effect, implying that consumers expect local sourcing to lower prices and tend to perceive stores that offer locally sourced products as overpriced. None of the CSR dimensions have significant interactions with relative price. Since all variables are mean-centered, the main effects can be interpreted as the effects of the CSR dimensions on price fairness when a retailer's relative price level is average.

Consistent with previous literature on price fairness (Bolton, Warlop, and Alba 2003; Martin, Ponder, and Lueg 2009), a higher price level relative to competitors results in less favorable price fairness perceptions, and profit judgment has the expected negative effect on price fairness

(i.e., a given price level is considered less fair if the retailer is seen as enjoying a higher profit). Profit judgment also has a significant negative interaction with relative price, i.e., the higher a retailer's relative price, the more profit judgment (adversely) affects perceived fairness of its price. Cost judgment has an insignificant main effect, but, as expected, its interaction with relative price is significantly positive. Therefore, the impact of cost and profit judgments on fairness perceptions is greater (i.e., further away from zero) when a retailer's price level (relative to competing stores) is higher. By contrast, the effects of CSR variables on price fairness perceptions are similar for higher-priced and lower-priced retailers alike.

Finally, the main and interaction effects of the control attributes generally have the expected signs: a wider assortment, higher merchandise quality, greater availability of unique items, better deals, and a more pleasant in-store experience all improve perceived price fairness. The perception that the retailer's customers are wealthy has a negative effect on price fairness perception, whereas affinity with the retailer's customers ("I have a lot in common with others who shop at Store A") has a positive effect. This is consistent with Grewal and Baker's (1994) finding that the "social environment" of a store, including the type of people who shop there, affects consumers' judgment of the price acceptability. The interaction terms confirm that many of these effects become more pronounced as the retailer's relative price increases.

< Insert Table 6 about Here >

*Determinants of customer loyalty.* Table 6 presents estimates of the two loyalty equations, in which we investigate the direct effects of CSR as well as price fairness on customer loyalty. The first column reports the estimates for attitudinal loyalty. Three of the four CSR dimensions have significantly positive coefficients (employee fairness has a positive but insignificant coefficient), generally supporting our hypothesis that positive CSR perceptions directly increase customers'

attitudinal loyalty towards a retailer. Also, as expected, a more favorable price fairness perception significantly improves attitudinal loyalty above and beyond the (negative) impact of relative price. All the control retailer attributes also have significant effects in the expected directions.

The remaining two sets of columns in Table 6 present coefficient estimates for the behavioral loyalty (SOW) equation. The first set of estimates is for a linear model and the second is for a logistical transformation to account for the fact that SOW is bounded between 0 and 1. Results are substantively similar for the two specifications, so we focus on the linear model estimates in the discussion below.

Two of the four CSR dimensions show a significantly positive direct effect on SOW – when consumers perceive that a retailer treats its employees fairly or promotes local sourcing, they reward the retailer with a higher share of their grocery spending. In contrast, environmental friendliness and community support do not directly influence SOW (environmental friendliness has a negative coefficient in the logistic model but it is only marginally significant.)

The contrasting effects of CSR on attitudinal versus behavioral loyalty are important to note. Our results suggest that, while both intrinsic and extrinsic CSR activities foster positive consumer attitudes, only intrinsic CSR activities modify consumer purchase behavior. Interestingly, our results coincide with Berman et al. (1999)'s study on firms' financial performance, which found in their sample of the top 100 firms from the Fortune 500 that socially responsible actions related to employees and products had a significant impact on return on assets (ROA), but those related to diversity, environmental issues, and community did not.

Similar to the results on attitudinal loyalty, both relative price and price fairness have the expected effects on SOW. This reaffirms the role of price fairness as a distinct mental construct

that affects consumer attitude and behavior. Most of the control variables also exhibit the expected signs with the exception of quality. The coefficient of unique item availability is interesting to note. It suggests that, while consumers value retailers with unique products (as reflected in its positive effect on attitudinal loyalty), they may shop at these retailers mainly for these special items, leading to lower SOW.

*Managerial significance of the CSR effect.* Overall, the model estimates discussed above support our hypothesized conceptual paths in Figure 1, and reveal the important relationships between CSR perceptions, cost and profit judgments, price fairness, and customer loyalty. They also demonstrate that all dimensions of CSR perceptions are not equal in their effects on perceived price fairness and loyalty. However, it is managerially important to understand how the CSR effects ripple through the system and to calculate their total impact in metrics of ultimate relevance to a retailer, such as share of wallet and price premium.

To provide this understanding, we first use the estimated coefficients to simulate the total impact on SOW if a retailer successfully improves consumers' perceptions of its performance on each CSR dimension from half a standard deviation below the mean to half a standard deviation above (see Dhar and Hoch 1997 and Maxham et al. 2008 for similar analysis). All other predictors are held constant at their means. The total impact consists of the indirect effect through cost and profit judgment and price fairness as well as the direct effect on behavioral loyalty. Second, to infer the price premium warranted by a retailer's CSR advantage, we conduct the following simulation: by what percentage could a retailer increase its price level relative to competitors if it improves CSR perceptions by one standard deviation, while still preserving its original SOW? We make this calculation also by considering the direct, indirect, and total effect of CSR. These results are summarized in Table 7.

< Insert Table 7 about Here >

First, we discuss the magnitude of the CSR impact on SOW. The total increase in SOW due to a one standard deviation improvement in employee fairness and local sourcing perceptions is 1.84 and 2.45 percentage points, respectively, for an average household. Considering that the mean SOW for a retailer in our sample is 11.07%, a one percentage point increase in SOW represents a lift of nearly 10% in the retailer's revenue (assuming no competitive response). In a highly competitive marketplace where retailers struggle hard for every market share point, the SOW gain of approximately two percentage points that employee fairness and local sourcing perceptions are predicted to garner is economically meaningful.<sup>5</sup>

If a retailer wishes to reap the benefit of its CSR advantage in premium pricing rather than higher SOW, our calculations show that a one standard deviation increase in employee fairness (local sourcing) perceptions translate to a price premium of 12.5% (16.6%). These premiums seem high at first glance but should be considered in light of the fact that they require a very substantial increase in CSR perceptions that would take a retailer from the bottom third to the very top of the competitive set (see Table 2). Further, these price premiums are not achievable from all CSR efforts. Indeed, the two CSR dimensions that companies tend to publicize extensively, environmental friendliness and community support, do little in terms of building SOW or enabling a price premium.<sup>6</sup>

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<sup>5</sup> The total U.S. supermarket sales exceed \$550 billion annually and the median store sales is over \$25 million (Food Marketing Institute 2009), so every SOW point carries a substantial dollar amount. For instance, consider the case of Kroger, one of the largest U.S. grocery chains with approximately \$76 billion in annual sales. It recorded a market share gain of 61 basis points (0.61%) in its major markets in 2008, and a total gain of 225 basis points over a four-year period. These market share gains were considered very "impressive" in its press release announcing the fiscal year results (The Kroger Company 2009).

<sup>6</sup> This does not mean, however, that there is no economic return to such CSR activities: given that they significantly influence attitudinal loyalty as discussed previously, it may lead to other pro-firm behavior not captured in the SOW measure, such as word of mouth referrals and advocacy, and higher willingness to overlook negative information about the firm or to forgive occasional lapses (e.g., Bhattacharya and Sen 2004).

How much of the total impact goes through the indirect route of price fairness perceptions? The answer is different for each CSR dimension. Approximately 15% (0.28 out of 1.84 SOW points) of the total SOW benefit from employee fairness efforts is indirect. In terms of prices, a retailer can charge a premium of 1.9% simply because of the indirect benefit through improved price fairness perceptions. Given the razor thin margins that retailers operate on (net margins are in the 1-3% range for many retailers), this level of general price premium is highly significant. In contrast, local sourcing gets no indirect benefit at all – in fact the indirect effect is negative and accounts for about 6% of the total. Community support does not have a significant direct effect on SOW but it does confer a benefit via the indirect route. And, finally, environmental friendliness has neither a direct nor much of an indirect impact on SOW.

### **Conclusion**

We have used field data to quantify the impact of four different CSR dimensions on consumers' attitudinal and behavioral loyalty to a retailer while controlling for other store attributes that drive loyalty and purchase behavior. We have found that two of the four CSR dimensions have a statistically and managerially significant impact, with a one standard deviation increase leading to gain in share of wallet of up to 2.5 percentage points or a price premium of up to 17%. Thus, companies should not shy away from CSR initiatives simply because they are costly – our research shows that there is substantial room to offset the costs with higher customer loyalty or higher prices.

We have also found that CSR efforts affect loyalty not just directly but also through price fairness perceptions. This indirect effect is positive and substantial for some CSR dimensions, accounting for up to 15% of the total gain in SOW or allowing for a 2% price premium. Indeed,

the indirect effect can even counter a zero or negative direct effect of some CSR dimensions on behavioral loyalty.

Our research demonstrates clearly that all CSR efforts do not garner equal rewards. In the grocery industry, initiatives that are related directly to the products consumers buy and the employees who serve them bring statistically and managerially significant returns in customer SOW while others do not. Indeed, to the extent that local sourcing is not as expensive as other CSR initiatives and may even reduce retailer's dependence upon large and powerful manufacturers, the net returns may be even higher. The indirect effect also varies for different CSR dimensions – it adds substantially to the benefit of dimensions like employee fairness and community support and detracts from the benefit of local sourcing.

Our work also highlights the difference between attitudinal and behavioral loyalty. It is interesting to note that the ranking of the four CSR dimensions in terms of impact on the two types of loyalty is quite different. It is not just that CSR has a “bigger” effect on attitudes than on behaviors; rather, the CSR dimensions that have the biggest impact on attitude (community support and environmental friendliness) are the ones that have little impact on behavior. This reveals a challenge for companies in deciding which CSR initiatives they should invest in. Our research suggests that CSR dimensions whose benefits are concrete and experienced directly by consumers in their interchange with the firm should get more priority. But, other initiatives are also valuable to build attitudinal bonds with consumers and should not be ignored especially to the extent that they are not expensive or have a positive impact on other stakeholders.

In conclusion, we note some directions for further research revealed by our work. First, we controlled econometrically for heterogeneity in consumer response to CSR, so we can be confident that the results we report are valid. However, it would be useful to profile segments of

consumers who respond to different CSR dimensions. Prior research has shown that consumers respond more to the CSR initiatives that they personally support/believe in (and our own analysis, which we do not report given that our objective was to quantify overall direct and indirect effects, supports this). However, the question becomes, who are the types of consumers who support different types of initiatives, and how valuable are they to the firm in terms of their current share of wallet or potential lifetime value? Answering that question can provide guidance to firms who must choose which CSR efforts to invest in and which consumer segments to communicate those efforts to.

Second, we studied the major stakeholder group for grocery retailers, but it is also important to study how other stakeholders such as employees and investors respond to each CSR dimension. As we noted earlier, CSR dimensions like environmental friendliness and community support may well have significant effects on these stakeholders and therefore on financial returns even though they have little direct impact on consumers' behavioral loyalty.

Third, we have examined one mechanism – price fairness – through which CSR activities affect loyalty and price premiums and found it to be important, both statistically and managerially. Previous researchers have studied mediators like consumer-company congruence but there are others that should be investigated. Customers may feel better about themselves by engaging with a business that practices CSR. They may patronize CSR-active companies to impress significant others. CSR activities may assuage the guilt customers feel in buying luxury goods. These mechanisms come from consumer-company identification and social identity theory, which researchers have drawn upon to hypothesize a positive effect of CSR on consumer attitudes. However, the mediating effects of these and other specific identity-related constructs have not been estimated.



Finally, we examined the direct and indirect impact of CSR dimensions in the grocery retail industry. We hope future researchers will build on our work by conducting field data-based analysis of the direct and indirect impact of CSR dimensions in other consumer and business-to-business industries.

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**TABLE 1**  
**MEASUREMENT OF MODEL VARIABLES**

Variables	Mean	SD	Survey Items <sup>a,b</sup>
<b><i>Dependent Variables</i></b>			
Cost judgment (Cost)	3.29	0.98	Retailer A's labor and product costs are probably higher than other stores.
Profit judgment (Profit)	2.95	0.78	Retailer A's profits are probably higher than other stores.
Price fairness (Pfair) ( $\alpha = 0.831$ )	3.82	0.84	Prices at Retailer A are fair. For what Retailer A offers, the prices they charge are reasonable.
Attitudinal loyalty (Aloy) ( $\alpha = 0.872$ )	0.45	0.32	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 (SOW)*	0.11	0.13	Thinking about the last 6 months, what percentage of your grocery spending was in Retailer A? (0-100%)
<b><i>Focal Independent Variables (CSR Dimensions)</i></b>			
Employee fairness (Empfair)	3.63	0.98	I believe that Retailer A treats employees fairly.
Environmental friendliness (Envfrnd)	3.82	1.18	I believe that Retailer A has environmentally friendly policies.
Community support (Comsup)	3.93	1.23	I believe that Retailer A cares about the local community.
Local sourcing (Locsrc)	3.59	1.44	I believe that Retailer A offers a large selection of local products.
<b><i>Control Variables</i></b>			
Relative price (Relprice)	3.24	1.09	I can get the same items at lower prices in other stores than Retailer A.
Quality (Qual) ( $\alpha = 0.895$ )	4.09	0.99	I am confident in the quality of products at Retailer A. The quality of products sold at Retailer A is high.

<i>(cont.)</i>	Mean	SD	Survey Items <sup>a,b</sup>
Deals (Deal) ( $\alpha = 0.707$ )	3.67	0.80	There are special deals available on many products at Retailer A. When items are on sale at Retailer A, the discounts are deep.
In-store experience (Instor) ( $\alpha = 0.791$ )	3.89	0.93	The atmosphere at Retailer A is pleasant. Help is always available when I need it at Retailer A. It is easy to find things at Retailer A.
Assortment selection (Assort)	4.00	0.99	Retailer A offers a big selection of items in many product categories.
Unique items (Uniq)	3.76	1.31	I can find unique products at Retailer A that are not available elsewhere.
Shopper affinity (Saff)	3.51	1.01	I have a lot in common with others who shop at Retailer A.
Wealthy clientele (Wlthy)	3.27	1.26	Shoppers at Retailer A tend to be wealthier than at other stores.
Location convenience (Conloc)	3.75	1.30	Retailer A's location is convenient for me.

a. All items except SOW (marked with \*) are measured on a five-point scale with 5 indicating "strongly agree" and 1 indicating "strongly disagree".

b. In the survey, "Retailer A" is replaced by each retailer's actual name.

**TABLE 2**  
**CSR PERCEPTIONS ACROSS 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)

\* Focal retailer

Note: For the four CSR variables, mean values are reported on a scale of 1 to 5 (with a higher rating indicating more favorable perception) with standard errors parentheses.



**TABLE 3**  
**CORRELATIONS AMONG VARIABLES**

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	SOW	ALoy	Pfair	Empfair	Envfrnd	Comsup	Locsrc	Relprice	Qual	Deal	Instor	Assort	Uniq	Saff	Wlthy	Conloc
SOW	1															
ALoy	.55	1														
Pfair	.25	.42	1													
Empfair	.33	.57	.21	1												
Envfrnd	.35	.69	.16	.65	1											
Comsup	.36	.70	.19	.64	.83	1										
Locsrc	.37	.65	.10	.62	.81	.82	1									
Relprice	-.01	.11	-.33	.24	.35	.33	.39	1								
Qual	.36	.76	.24	.62	.80	.80	.79	.30	1							
Deal	.17	.25	.50	.10	.05	.06	.01	-.24	.10	1						
Instor	.42	.72	.29	.63	.74	.73	.74	.24	.77	.19	1					
Assort	.24	.42	.32	.31	.35	.37	.37	.02	.42	.31	.45	1				
Uniq	.26	.63	.13	.53	.71	.73	.75	.34	.73	.04	.63	.38	1			
Saff	.39	.58	.26	.46	.52	.53	.50	.16	.55	.18	.55	.35	.46	1		
Wlthy	.23	.47	-.10	.54	.66	.65	.71	.47	.64	-.14	.55	.20	.63	.41	1	
Conloc	.37	.27	.09	.24	.29	.28	.10	.16	.28	.06	.32	.10	.20	.27	.24	1

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Note: See Table 1 for corresponding complete variables names.

**TABLE 4**  
**ESTIMATES OF COST AND PROFIT JUDGMENT EQUATIONS**

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

<sup>\*\*\*</sup>  $p < .01$ , <sup>\*\*</sup>  $p < .05$ , <sup>\*</sup>  $p < 0.10$ . Standard errors are in parentheses.  
Model also includes seven retailer dummy variables.

**TABLE 5**  
**ESTIMATES OF PRICE FAIRNESS EQUATION**

<i>Focal Variables</i>		
Employee fairness	0.075 <sup>***</sup>	(0.012)
Environmental friendliness	0.023	(0.014)
Community support	0.072 <sup>***</sup>	(0.014)
Local sourcing	-0.031 <sup>**</sup>	(0.013)
Cost judgment	-0.006	(0.011)
Profit judgment	-0.088 <sup>***</sup>	(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 <sup>***</sup>	(0.009)
Profit judgment × RP	-0.088 <sup>***</sup>	(0.010)
<i>Control variables</i>		
Relative price (RP)	-0.182 <sup>***</sup>	(0.009)
Assortment	0.076 <sup>***</sup>	(0.010)
Quality	0.169 <sup>***</sup>	(0.017)
Unique items	0.019 <sup>*</sup>	(0.010)
Deals	0.290 <sup>***</sup>	(0.011)
In-store experience	0.131 <sup>***</sup>	(0.015)
Wealthy clientele	-0.101 <sup>***</sup>	(0.011)
Shopper affinity	0.069 <sup>***</sup>	(0.010)
Assortment × RP	0.013 <sup>*</sup>	(0.008)
Quality × RP	-0.009	(0.014)
Unique items × RP	0.024 <sup>***</sup>	(0.008)
Deals × RP	0.025 <sup>***</sup>	(0.008)
In-store experience × RP	0.002	(0.012)
Wealthy clientele × RP	-0.057 <sup>***</sup>	(0.009)
Shopper affinity × RP	0.034 <sup>***</sup>	(0.008)

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

**TABLE 6**  
**ESTIMATES OF LOYALTY EQUATIONS**

	Attitudinal Loyalty		Share of Wallet (linear)		Share of Wallet (logistic)	
<i>Focal variables</i>						
Employee fairness	0.014	(0.009)	0.016 <sup>***</sup>	(0.005)	0.113 <sup>***</sup>	(0.027)
Environmental friendliness	0.041 <sup>***</sup>	(0.011)	-0.009	(0.006)	-0.058 <sup>*</sup>	(0.035)
Community support	0.081 <sup>***</sup>	(0.011)	-0.006	(0.006)	-0.005	(0.033)
Local sourcing	0.039 <sup>***</sup>	(0.010)	0.018 <sup>***</sup>	(0.005)	0.109 <sup>***</sup>	(0.031)
Price fairness	0.184 <sup>***</sup>	(0.010)	0.035 <sup>***</sup>	(0.005)	0.220 <sup>***</sup>	(0.029)
<i>Control variables</i>						
Relative price	-0.063 <sup>***</sup>	(0.008)	-0.039 <sup>***</sup>	(0.004)	-0.242 <sup>***</sup>	(0.022)
Assortment	0.026 <sup>***</sup>	(0.007)	0.006	(0.004)	0.019	(0.023)
Quality	0.258 <sup>***</sup>	(0.013)	-0.016 <sup>**</sup>	(0.007)	-0.106 <sup>**</sup>	(0.040)
Unique items	0.044 <sup>***</sup>	(0.008)	-0.028 <sup>***</sup>	(0.004)	-0.170 <sup>***</sup>	(0.025)
Deals	0.052 <sup>***</sup>	(0.009)	0.021 <sup>***</sup>	(0.005)	0.130 <sup>***</sup>	(0.029)
In-store experience	0.213 <sup>***</sup>	(0.012)	0.040 <sup>***</sup>	(0.007)	0.263 <sup>***</sup>	(0.037)
Wealthy clientele	-0.033 <sup>***</sup>	(0.009)	-0.021 <sup>**</sup>	(0.004)	-0.132 <sup>***</sup>	(0.024)
Shopper affinity	0.135 <sup>***</sup>	(0.007)	0.051 <sup>***</sup>	(0.004)	0.329 <sup>***</sup>	(0.022)
Location convenience	0.022 <sup>***</sup>	(0.005)	0.054 <sup>***</sup>	(0.003)	0.328 <sup>***</sup>	(0.015)

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

**TABLE 7**  
**MAGNITUDE OF THE CSR EFFECT**

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

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

<sup>a</sup> All effects are calculated for a one standard deviation increase in the CSR dimension.

**FIGURE 1:  
THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY**

