Is Profit Evil? Incentive Neglect and the Association of Profit With Social Harm

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We find a strong negative correlation between perceived profit and social value across both industries and specific firms. People report little faith in the power of markets to create and reward value, neglecting the incentive properties of profit and focusing instead on the perceived intentions of firms.

Special Session

Doing Well and Doing Good: New Frontiers in Firm/Brand Perceptions and Perceptions of Social Good

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EXTENDED ABSTRACTS

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As sentiments arising from the current financial crisis illustrate, people often behave as if profit-seeking and social good are necessarily at odds. Narrative themes involving evil capitalists have been prevalent in literature and films from Shakespeare to the modern day (Ribstein 2009). However, economists have long noted that this association is carried too far, such that profit-seeking is seen as fundamentally in conflict with social welfare: an "ineradicable prejudice that every action intended to serve the profit interest must be anti-social by this fact alone (Schumpeter 1954 p. 234)."

We build on Caplan's (2007) notion of antimarket bias, which proposes that the benefits of the market mechanism in creating and rewarding value for society are systematically underestimated (Caplan and Cowen 2004). In other words, market transactions are regarded as mere transfers of wealth from the pockets of consumers to firms (Caplan 2007). Thus, profits may be perceived to indicate value being taken from consumers rather than provided to consumers—the opposite of what one might expect in a functioning market. Consistent with this theorizing, we show in three studies that consumers neglect the incentive properties of profit in rewarding value, and instead focus on the perceived intentions of organizations.

In study 1, participants either estimated or viewed actual profit figures for 32 US firms sampled from the Fortune 500 list and rated them on a number of dimensions of social good. Across firms, estimated profits were systematically far higher than actual profits, consistent with past findings of profit overestimation (e.g. Bolton Warlop and Alba 2003). More importantly, higher estimated profits were positively correlated with perceptions of social harm, unfair business practices, and a lack of value to society, but also with effectiveness in achieving organizational goals. Thus, even though higher profits are thought to indicate effectiveness in achieving firm objectives, those objectives are presumably seen as socially harmful and out of step with the objectives of society. This pattern also held for *actual* gross profits, suggesting that participants' perceptions were reasonably accurate, and actual revenues, suggesting that size and prominence may serve as a proxy for perceived profitability.

In order to eliminate pre-existing associations with particular firms and test these notions in a more tightly controlled setting, study 2 provided participants with descriptions of the business practices of hypothetical organizations across four different industries, varying only whether the organization was described as a for-profit corporation or a non-profit organization. After reading each scenario, participants rated the organization described on perceived social value and effectiveness. Consistent with study 1, even identically-described hypothetical organizations were seen as less valuable to society, yet more effective, when they were described as for-profit corporations (vs. nonprofit organizations). Thus, independent of actual profitability, merely being motivated by profits was enough to produce seemingly contradictory, simultaneous judgments of greater effectiveness and diminished value.

Study 3 sought to further explore perceptions of different types of businesses and consumers' focus on intentions. Participants rated types of firms across 42 industries on perceived profits, deservingness of these profits, value to society, source of these profits (i.e. whether they came at the expense of others), and the motives of those running the firms. Across industries, perceived profits were almost perfectly negatively correlated with the perceived social value the industry creates. Furthermore, higher perceived profits were associated with lesser perceived deservingness, less perceived value to society, and greater belief that these profits came at the expense of others. The only significant moderator of this correlation across individuals was the perceived motives of firms. Participants who did not exhibit this negative association of profits with social value tended to believe that businesses are motivated primarily by a desire to serve society or consumers. In other words, our participants believed that firms provide social value only when they intend to do so, not because profit-seeking encourages the creation of social value.

Together, our results suggest that consumers have little faith in the power of markets to create and reward value. Though even "base," self-interested profit-seeking should motivate firms to promote the common good (Caplan 2007), consumers neglect the incentive properties of profit and the workings of the market mechanism. Instead, they focus on the intentions of firms, associating a profit motive with social harm.

"Non-Profits Are Seen as Warm and For-Profits as Competent: Firm Stereotypes Matter"

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In 2002, recent college graduate Charles Best started a philanthropic organization in the basement of his parents' home (Alter 2007). It consists of a Web site (DonorsChoose.org) that allows teachers to easily post requests for donations to fill specific pedagogical needs. Through donorschoose.org, requesters are not required to write in a heavy, formal grant-writing form (which is the norm when submitting aid requests); they can simply use plain language. For instance, a teacher in a high poverty district of New York City wrote to ask for "$1266 to purchase five laptop computers to help build the students' math and literacy skills."

Initially, outsiders were skeptical that the idea would work. In fact, MBA graduates from a prominent business school investigated the organization and declared that DonorsChoose.org was unlikely to stay in business. They even went so far as to withdraw a large gift tagged for the organization because they believed the non-profit's business plan was shabby. Seven years on, the organization is still afloat. DonorsChoose.org is, in fact, hugely successful, having won multiple awards and much acclaim.

We argue that the underlying story of donorschoose.org is a common one. The organization was perceived as caring and targeting a worthy cause, but as not possessing a high level of competency. This led to our inquiry into how people view non-profit and for-profit organizations. We proposed that people possess stereotypes of organizations merely based on the knowledge that a firm is a for-profit or not-for-profit.

People's judgments of other people often fall along two primary dimensions, namely how much they exude warmth and competence

(Judd James-Hawkins Yzerbyt and Kasima 2005). These two dimensions emerge in contexts as varied as split-second evaluations (Ybarra Chan and Park 2001), liked and disliked groups (Cuddy Fiske, and Glick 2007), employee hiring decisions (Casciaro and Lobo 2008), leadership qualifications (Chemers 2001), and romantic partner choices (Sinclair and Fehr 2005). The robustness of these two dimensions has led them to be deemed "fundamental" (Fiske Cuddy and Glick 2007). We examined whether warmth and competence color the way consumers view companies—in particular, non-profits and for-profits —and whether those judgments influence marketplace decisions. We then tested whether consumers' stereotypes can be altered to enhance perceptions of non-profits (since they lagged behind their for-profit counterparts on key metrics of marketplace appeal).

Across three experiments, we found that stereotypes do in fact exist for non-profit and for-profit organizations and that they predict crucial marketplace behaviors, such as likelihood to visit a website and willingness to buy a product from the organization. In experiment 1, participants viewed a description of a product made by a company whose URL ended with either dot-com (www.Mozilla.com) or dot-org (www.Mozilla.org). Results showed that consumers perceived the non-profit as being warmer than the for-profit, but as less competent. Relatedly, consumers perceived the non-profit as more needy, and the for-profit as more greedy.

In experiment 2, we used the same manipulation but with a different product and a different company (www.worldofgood.com vs. www.worldofgood.org), and in addition to measuring consumers' perceptions of the firm's characteristics, we measured consumers' intent to purchase a product from that firm. The results showed that although the non-profit was perceived to be more warm, consumers were more willing to buy a product offered by the for-profit because of perceptions of the company as more competent. Consequently, when perceived competence of the non-profit was boosted by an endorsement from a highly credible source (the *WSJ,* rather than *The Detroit Free Press*), we found that consumers were equally willing to buy from the non-profit as the for-profit. Furthermore, reconnecting with the participants one month after the initial study allowed us to see that the effect persists and impacts actual behavior (likelihood to have visited the firm's website since learning of it in the initial study).

In experiment 3, we showed that an even more subtle manipulation which boosts perceived competence (i.e., the implicit activation of money) can serve to increase consumers' willingness to buy from a non-profit. In identifying these stereotypes, our findings underscore the importance of framing firms as non-profits or for-profits (e.g., through the use of dot-org vs. dot-com internet domain names). To our knowledge, this research is the first to investigate whether stereotypes are used to evaluate non-profit and for-profit organizations, whether these stereotypes have downstream consequences on consumer behavior, and whether such stereotypes can be dispelled through marketing actions.

"Can Luxury Brands Do Poorly by Doing Good? Brand Concepts and Responses to Socially Responsible Actions"

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Though brands across a wide spectrum of industries actively communicate CSR messages, surprisingly little is known about how these efforts might interact with brand concepts and influence consumer outcomes. The current four studies fill this gap in the literature by: (1) identifying brand concepts that are spontaneously more compatible or incompatible with a CSR image, (2) documenting the unintended negative consequences from communicating the CSR actions of a brand with a CSR-incompatible concept, (3) uncovering the psychological processes underlying these unintended effects, and (4) devising branding strategies to offset them.

Brand concepts are brand-unique abstract images arising from particular combinations of attributes, benefits, and marketing efforts that translate these benefits into higher-order meanings (Park Milberg and Lawson 1991). Carefully crafted to distinctively appeal to target customers, brands concepts vary as much as people's self-relevant concerns and personalities (Aaker 1997). Communicating a brand's CSR actions can help marketers build a brand concept associated with a prosocial image (Brown and Dacin 1997). We argue that the results of such efforts depend on the compatibility of a brand's existing image with a prosocial one.

Prior research suggests that people's self-relevant concerns follow a circular structure in which some concerns are consistent, opposed to each other, or orthogonal (Schwartz 1992). Pursuing concerns linked to a high-order value dimension (e.g., status concerns linked to self-enhancement values) inhibits the pursuit of concerns linked to an opposing value dimension (e.g., prosocial concerns linked to self-transcendence values), but does not affect the pursuit of orthogonal value dimensions (e.g., openness or conservation; Maio et al. 2009). Because consumers use brands to fulfill their identity goals (Aaker 1999), this motivational structure should be reflected in spontaneous perceptions of incompatibility (compatibility) between prosocial and status (conservation or openness) images. In particular, information about CSR actions of a status brand should create confusion, diluting the brand image and decreasing brand evaluations. In contrast, no such effects are anticipated for conservation or openness brands.

We tested this proposition in experiment 1 using a fictitious brand in a 3 (brand concept: conservation/openness/status) X 2 (CSR information: present/absent) between-subjects design. Participants were given information consistent with the corresponding brand concept followed by CSR (vs. neutral) information. When exposed to CSR information, participants exhibited less favorable evaluations and brand image clarity for a status versus conservation or openness brand concept. In contrast, when the CSR information was absent, brand evaluations and perceptions of brand image clarity were similar across brand concepts. For the status brand concept, evaluations and clarity were less favorable when CSR information was present versus absent.

Experiment 2 extended these findings to a real luxury brand and investigated the role of people's preferences for status products (as an expression of their value orientation) on the evaluation of luxury brands engaged in CSR. We anticipated that people with status concerns, for whom the status affordances of a luxury brand are more self-relevant, should be more likely to exhibit the dilution effects found in experiment 1. We used a 2 (status concerns: low, high) x 2 (new brand information: CSR, control, openness) between subjects design. When exposed to CSR information, participants evaluated the luxury brand less favorably and perceived it less clearly in terms of a status image than those in a control condition, whose evaluations were based on their prior knowledge of the luxury brand. This was not the case for participants exposed to product information describing the brand in terms of stimulation values. In addition, these effects were stronger among individuals for whom status products are particularly self-relevant.

The last two experiments examined the process underlying the effect and explored ways to offset it through branding and communication practices. In experiment 3, we either encouraged participants to elaborate (or not) upon the congruity between prosocial and status images (e.g., by presenting examples of high-status persons who behave in prosocial ways). We replicated the previously documented effects in the no elaboration condition, in which participants relied on spontaneous perceptions of CSR-status incompatibility. However, when participants elaborated on the congruity between status and CSR, the effects dissipated.

Experiment 4 further investigated the reflexive nature of the effect and identified a sub-branding strategy as a viable option for offsetting it. Communicating the CSR actions of a luxury brand under a sub-brand strategy was more effective than doing so under a direct brand strategy. However, the favorable effect of the sub-branding strategy only emerged when participants had the resources available to reconcile the CSR and luxury images by sub-typing the information. When cognitive resources were insufficient, the sub-brand strategy failed to provide any benefit.

"Are Inconsistent CSR Associations Always Detrimental? The Influence of Dialectic Thinking on Brand Perceptions"

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The recent upsurge in CSR efforts reflects the belief that CSR is not only the "*right thing to do,* but also leads to *doing better* through its positive effects on customers and other stakeholders" (Bhattacharya and Sen 2004). In reality however, brands are finding it difficult to maintain a consistent image on CSR. For example, Starbucks is known for having good CSR record, yet it was involved in exploiting Ethiopian coffee growers (Wagner Lutz and Weitz 2009). Similarly, McDonald's has committed to reducing unhealthy trans-fats in its menu but the extent of such fats in its food varies from country to country (Wagner et al. 2009). BP, the oil company that positions itself as being environmentally friendly, started oil exploration in the Alaskan sands, attracting criticism from environmental groups (Macalister 2007). Furthermore, many brands that are now engaging in CSR were previously associated with a negative CSR record (e.g., oil companies; Yoon Gürhan-Canli and Schwarz 2006). Thus, many brands appear to be communicating inconsistent CSR associations to their consumers.

Prior research suggests that inconsistent brand associations can lead to negative consequences for the brand (Keller 2007; Loken and John 1993; Monga and John 2008). In this paper, we draw upon the literature on dialectic thinking to suggest that not all consumers are likely to be negatively affected by the inconsistent CSR information. Recent research suggests that dialectic thinkers appear to accept contradiction more easily than non-dialectic thinkers (Peng and Nisbett 1999). For example, dialectic thinkers appear to be more receptive to dialectical proverbs like, "sorrow is born of excessive joy." On the other hand, non-dialectic thinkers appear to like non-dialectical proverbs like "half a loaf is better than none." Dialectic thinkers are also more likely to resolve a social contradiction (e.g., a conflict between a mother and daughter) by accepting that both parties are correct (mother and daughter). In contrast, non-dialectic thinkers are more likely to choose one of the two parties as correct (e.g., mother or daughter). Thus, dialectic thinkers appear to be more favorably disposed to seeking out the middle ground and being more accepting of contradictory ideas (Peng & Nisbett, 1999).

By drawing upon this research, we predict that dialectic thinkers, who are more open to contradiction, are more likely to evaluate an inconsistent CSR brand more favorably than non- dialectic thinkers. Study 1 exposed participants (from an online consumer panel) to a news article about an oil company that was bad in CSR in the past and is now engaging in positive CSR activities (adapted from Yoon et al., 2006). A median split was used to identify dialectic and non-dialectic thinkers. Consistent with our expectations, dialectic thinkers, compared to non-dialectic thinkers, evaluated the brand more favorably and had higher behavioral intentions.

Prior research shows that dialectic thinking emerges when individuals fear being negatively evaluated by others. Consequently, those individuals conceal their views when they believe that they are in the minority. Thus, we expected that the nature of the decision context would affect responses to inconsistent CSR brands. In a public decision context, dialectic thinkers would respond more favorably to an inconsistent CSR brand than non-dialectic thinkers. However, in a private decision context, the difference would disappear. Study 2 employed a 2 (dialectic vs. non-dialectic) x 2 (public, private) between subjects design. The stimuli consisted of a car brand with positive CSR record partnering with a brand with a negative CSR record. As expected, we found that when the decision context was public, dialectic thinkers provided more favorable brand evaluations and behavioral intentions than non-dialectic thinkers. However, in a private decision context, the difference between dialectic and non-dialectic thinkers dissipated.

Prior research has distinguished between proactive and reactive CSR strategies (Wagner et al. 2009). Proactive strategies are those that consist of a positive CSR statement followed by a negative CSR behavior by the company. A reactive strategy consists of a negative CSR behavior by the company followed by a positive CSR statement. In study 3, we used a 2 (dialectic vs. non-dialectic) x 2 (proactive, reactive) between subjects design and found that purchase intention toward an inconsistent CSR brand was more favorable among non-dialectic thinkers than among dialectic thinkers when the strategy was proactive. However, no differences emerged in the reactive strategy. Taken together, our findings make important contributions to the areas of CSR, brand strategy, and consumer behavior.