

# **Do Ethical Preferences Differ Depending on the Type of Product?**

## **Implication for CSR communication**

Gautam Agarwal  
PhD Student  
University of Milan  
Italy

**Abstract**

This study will use ranking methodology to examine consumer preferences with respect to ethical and social issues relating to different products. Research has shown that consumers' attitudes towards ethical and social issues are dependent on the product in question. It is thus important that the communication of CSR activities is based on those social product features that are relevant to the consumer. In this paper I will categorize products based on the results of consumer preferences with respect to ethical and social product features. The paper will also segment consumers based on their attitudes towards social and ethical issues. This has implication for effective CSR communication.

**Key Words:** consumer ethics, corporate social responsibility, CSR communication, ethical product attributes

## **Introduction**

The trend towards globalization places a greater emphasis on the individual consumer as well as the corporation. Ethical consumerism addresses the social and environmental consequences of global trade. Neither the consumer nor the corporation can ignore the consequences of their actions. Ethical choices can involve purchasing from firms whose products and behaviours are deemed ethical and boycotting firms that seem to be unethical. Ethical issues can involve treatment of workers, environmental issues, gender and racial discrimination and human right issues (Michletti 2003). Ethical issues are widely discussed in the Swedish media and have gained importance over the last decade.

Ethical consumption implies that consumers have an important role through their purchasing activities in promoting ethical corporate practices. Ethical consumerism also implies that the consumer considers not only individual but also social goals, ideals and values (Uusitalo and Oksanen. 2004). Ethical behavior can also be affected by the nature of the product. For low involvement products (bath soaps) consumers are less ethically orientated. Certain ethical considerations are more important than others and importance of ethical consumption increases when such choices influence their own lives (Carrigan, M. & Attalla 2001).

Studies have shown that consumers tend to punish companies that are unethical but do not reward those that are ethical. A study by Elliott and Freeman (2001) found high price elasticity for products made under bad conditions but low price elasticity for products made under good conditions. This implies that gain from marketing for production under good condition is limited. Folkes and Kamins (1999) found that ethical behavior on part of companies did not compensate for inferior products but unethical behaviour had impact on consumer attitudes even if products were superior. It is also suggested that there is an ethical obligation not to cause harm (eg. use child labour) but there is no ethical obligation to do well (eg. provide education to children) (Folkes and Kamins, 1999). Many consumers are still not aware about which firms conduct ethical practices and which do not (Boulstridge, E. & Carrigan, M. 2000). Moreover consumers find it hard to tell if a product is ethically produced or not (Shaw et al, 2006)

The last few decades has seen a change in competitive strategies. Demand for increased innovation and price competition has led firms to find new ways to differentiate themselves. This has led many firms to market themselves as responsible corporate citizens. Corporate Social Responsibility (CSR) has received much publicity in the media and received attention in public debate in recent years. An increased awareness has contributed to a tendency on the part of consumers to engage more in how they can contribute to sustainable development. Consumers expect a greater extent that the company conducts its business in a manner consistent with society's values and they want to be informed about corporate social engagement (Marin, Ruiz & Rubio, 2009; Pomeroy & Dolnicar, 2009).

A significantly increased proportion of Americans say they are willing to actively penalize companies that do not take a social responsibility, and that reward those

companies that work with CSR, for example by switching brands or refrain from buying certain companies' shares (Webb et al., 2008). Way companies market their CSR activities have recently changed, reasonably in line with the higher demands placed on businesses. Many global companies are making their supply chains increasingly easier for consumers, including by uploading information about them on their website, which allows consumers to create themselves a picture of them. This can lead to what was once the major weaknesses of these companies instead become strength because of the transparency that this information helps. Cisco, for example has adopted code for supplier that outlined standards to ensure safe working conditions, where workers are treated with dignity and respect and the manufacturing process is in compliance with the environmental and local laws. However, there are many companies that are too aggressively communicating their CSR work with large ads and over clear press releases. The risk is that this type of marketing will result in companies misleading consumers about the company's CSR work and increase skepticism from the consumers' side. This may hurt the company by reducing loyalty among customers, reducing the value of brand and minimize the return on marketing investment. It is thus important to communicate only those ethical and social issues that the consumers value in a product.

The question I want to answer in this paper is how people rank different ethical and social issues and if they product dependent. A study by Auger et al. (2007) did try to rank 16 different ethical issues (grouped in six categories) using the best-worst scaling methodology but the ranking was without any context. The study ranked human rights and child labour as the most important ethical issues considered by the consumer. The study is perhaps one of the first of its kind but is it realistic to rank different ethical and social issues without reference to the products? Consumers may be selective ethical and may differ in their level importance placed on different ethical aspects of a product. For example a consumer may purchase a car because it is environment friendly, but may be less discriminating on issues like labour exploitation. At the same time the same consumer may purchase chocolates that are classified as fair trade but may not give much importance to environmental issues. Thus a general rating of different ethical and social issues may not be much helpful for companies in identifying ethical issues they should concentrate on. This has important implications and companies should profile their products in alliance with consumer preferences (Carrigan & Attalla 2001).

In this study I will use comparative rating method to find out the preference ordering of social and ethical attribute in a product. Respondents will be shown a list of alternatives addressing different ethical and social issues and they will be required to rank the different ethical aspects with reference to a particular product. This method is very efficient and no two attribute can have the same importance and imposes severe tradeoffs. This method overcomes the disadvantages of a traditional importance rating survey that overstate the importance of attributes and show little discrimination between attributes importance score (Maydeu-Olivares and Brown, 2010). The issues that will be tested relate to environment, labour rights, animal rights, individual rights and consumer protection.

This study also tries to find out if the level of involvement in the purchase of products has anything to do with their ethical preferences. Earlier research has indicated that the level of product involvement could influence ethical and social preferences of consumers. Auger et al (2010) found that environmental issues were important for low involvement products like batteries and issues of child labour were important considerations for high involvement products like athletic shoes.

Using Pelozo and Shang's (2011) categories of CSR activities (philanthropy, business practices, or product related) I will try to assess the CSR activities that have most impact on consumer preferences. The role of philanthropy is not taken into consideration in this study so the main focus of this study will be the comparison of business practices with product related CSR activities.

## **Literature review**

### *Corporate Social Responsibility*

The concept of Corporate Social Responsibility is about how companies combine their values and their behavior with the expectations from various stakeholders such as suppliers, employees, consumers, stakeholders and society at large. In this paper however, we will look at CSR from the consumers' perspective. CSR means that a company works towards minimizing the negative social environmental and economic impact they have on their surroundings. Corporate Responsibility seeks companies to operate in a manner that contributes to sustainable development.

There are many motivations for engaging in CSR initiatives. Some companies believe that engaging in CSR helps in improving relationship with different stakeholders, others believe that CSR increases operational efficiency and reduces costs and still others are motivated by the market potential that good corporate reputation brings about (Pedersen, and Neergaard, 2009). Some companies work with CSR because it is principally the right thing to do regardless of the economic effect (Pedersen, and Neergaard, 2006). The fact that companies work with CSR on only socio-ethical grounds has been criticized by neo-classical economists such as Friedman. In his New York Times article Milton Friedman (1970) argued that the only social responsibility of corporations is to increase profits. According to Friedman when a company maximizes the benefits for itself and for its owners, it contributes more to the society than in any other way. This claim goes hand in hand with Adam Smith's "invisible hand" that controls the market and creates a balance between supply and demand (Wight, 2007).

CSR is something that is increasingly demanded by consumers when the importance of sustainable approach and insight into corporate behavior are increasingly part of the agenda. However, it is not completely straightforward for companies to communicate their CSR work as this information also leads to examination and questioning. Although CSR has impacted the policies and attitudes of businesses throughout the world it has seldom been linked to strategic marketing. The impact of CSR initiatives on consumers is important for performance improvement (Piercy and Lane, 2009).

According to Dawkins (2004) companies recognizing the opportunities and risk associated with CSR are increasingly making investment to look good in the eyes of the stakeholders. However benefits from CSR communication can only be realized when the CSR communication is in line with the concerns of the stakeholders. For CSR communication to gain credibility it is important that the causes the company supports must fit with their brand (Dawkins, 2004).

Marketing of CSR can be used as a resource and a way to gain competitive advantage. When a firm markets its products as ethical it may be advantageous to practice selective ethics. It is often difficult for consumers to consider several ethical criteria simultaneously but it may be easier to take into account one or two important ethical issues (Uusitalo and Oksanen. 2004). There are numerous examples to support this argument. Body shop has a single ethical claim of not testing products on animals, Green and Black's claim to use organic ingredients that are ethically sourced and Tom's of Maine claim to use all natural ingredients without animal testing. All these companies have employed selective ethics to gain advantage over their competitors. These companies have also been purchased by multinationals is an indication for growing consumer interest in ethical products.

According to Sen and Bhattacharya (2001) the success of CSR initiatives depends on the CSR issues the company chooses to focus on and the customers' support for the CSR issues. They also argue that consumers react negatively to negative CSR information but only consumers that support a specific CSR issue react positively to positive CSR information. Moreover consumers' support for a particular CSR sphere is a key determinant for any CSR initiative. If a company wants its CSR initiative to be guided by market considerations then it could be a good idea for managers to do research and find out the CSR initiatives that have most support among different consumer groups (Sen and Bhattacharya 2001). Influencing ethical consumerism requires defining which consumer goods and practices that have ethical meaning to the consumer with respect to economical, social, cultural, and political and technological environment (Cherrier, 2006). Bhattacharya and Sen (2004) argue that not all CSR are viewed equally by the consumers so it is important to develop CSR strategies that are not just ideological but also utilitarian.

Peloza and Shang (2011) in their recent review of the CSR literature categorised CSR activities into philanthropy, business practices and product related activities. Cause related marketing, donations, community involvement, and volunteerism were categorised as philanthropy, company's policies regarding environmental other social issues was grouped as business practices while CSR activities inherent in products were categorised as product related activities. According to the authors philanthropy, business practices enhance other oriented value for stakeholders while product related CSR activities have particular importance for self oriented value. The authors go on to say that CSR can be inherent in products and these can have significant impact on stakeholders' attitudes and behaviour and that CSR in the form of product features have the broadest spectrum of value to the consumers.

Holbrook's (2006) value model groups product related CSR activities like the manufacturing of energy efficient products and organic food as utilitarian whereas CSR activities related to business practices as socially significant or ideological. Utility refers to utilitarian consequences of a product and encompasses values of convenience, economy and quality. Social significance on the other hand refers to the social benefits like prestige attained through the ownership of a product.

Green and Peloza (2011) found that a majority of consumers considered functional values in a product when integrating CSR in their decision making process. Consumers were found to buy energy efficient products not only because of their positive environmental impact but also because their positive effect on energy costs. Similarly consumers bought organic food because they are perceived to be healthier and more nutritious. Consumers reported more positively to traditional CSR activities (eg. recycling) when they were integrated with functional benefits. Consumers can be encouraged to recycle if an incitement is attached to recycling. The authors go on to say that CSR should not be viewed parallel to traditional product performance but rather integrated.

The impact of CSR initiatives can vary depending on its geographical focus. Russell et al, (2010) found that CSR activities focused locally increased patronage for the company responsible for the CSR activity and resulted in increased purchase intentions. Local CSR activity increase reciprocal behavior on the part of customers reflecting egocentric tendencies on the part of consumers.

Many researchers have highlighted the need to take the firms industry into account while studying CSR. According to Cottrill (1990) any CSR investigation that does not take into account the industry realities is bound to be deficient. He goes on to say that the effect from industry is obvious thus CSR should be more selective. Sweeney and Coughlan (2008) studied the annual of companies that were known for their CSR initiatives. Their findings show that these companies that are recognized for their CSR confirm to behaviours, norms and expectations of their industry. Companies in the automobile and the oil sectors placed emphasis on environment while companies in the financial, pharmaceutical, telecommunication and retail sectors focused their attention on customers.

The above research shows that in order to be successful in CSR communication it is important that is important that companies are selective in their focus. However it does not mean that other areas of other areas of importance are ignored. The telecommunication companies studied by Sweeney and Coughlan (2008) had their main focus on customers but did mention their responsibilities to the environment in their annual report. The few studies that have been undertaken so far concentrate on certain industries and thus it is relevant to access the focus of CSR in other industries.

### *Studies on social and ethical features of products*

A review of the literature revealed that there are few studies that examine the consumer attitudes towards different social and ethical product features. This paper tries to narrow

this gap by studying a large number of product categories tested against a range of ethical and social issues.

In a series of articles Auger et al (2003, 2007, 2008 and 2010) do examine these issues. Auger et al (2003) found that ethical features of a product affected the purchase intentions of consumers. They also found that there was difference between individual ethical features. For bath soaps it was found that animal rights issues of animal testing was more important than environmental issue of biodegradability. For athletic shoes the most important ethical consideration was child labour ahead of other labour rights issues like minimum wage, living standards and working conditions. However, this ranking of ethical features differed between consumer segments. This is in line with the findings of Bhattacharya and Sen (2004) who argue that different consumer segments react differently to different CSR initiatives.

A cross cultural study by Auger et al (2007) measuring the importance of 16 ethical issues by found that issues concerning human rights and child labour received highest ratings while environmental issues and animal right issues received the lowest ratings. This study also found that the ethical ratings differed greatly among different consumer segments and that importance of ethical issues differed among countries. Animal rights for example was rated above average by India, Germany and Spain but rated lower than average by Korea, Turkey and USA. Another interesting finding of this study was that most consumer segments were willing to make tradeoffs between different issues and that and did not have singular ethical preferences. This has implications for cause-related marketing as companies must know under which circumstances consumers will support a particular ethical or social issue.

Auger and Devinney (2007) found that consumers value ethical attributes relative to the functional attributes of a product and that willingness to pay for products with ethical features was higher. The study also suggests that while there are consumers influenced by ethical issues their level of influence varies depending on the type of product and the issue in question. The authors argue that firms stand on ethical issues could be used to differentiate products but effective differentiation requires market segmentation and understanding the needs of consumers in those segments.

Auger et al (2008) found that for a certain segment of consumers absence of child labour in the production of athletic shoes was a significant factor influencing their intention of purchasing athletic shoes. Auger et al (2010) argue that environmental attributes of low involvement products like batteries are more likely to be known to the consumers compared to labour attributes of of high involvement products like athletic shoes. The authors explain this by saying that environmental issues have a more direct impact and that environmental attributes are more functional than labour attributes. The same study also showed that importance give to different social attributes differed among the countries studied. Indians and Koreans showed little concern for working conditions and environmental issue while Europeans and Americans show more concern for these issues.

Sriram and Forman (1993) studying only the environmental attributes of milk, washing machine and deodorant found that the level of importance attached to social features differed between the American and Dutch consumers. The American consumers were more concerned about recyclability of milk package than the Dutch consumers, both the group of consumers considered energy efficiency of washing machines unimportant but both the groups expressed concern towards the testing of deodorant on animals.

Howard and Patricia (2006) studied consumers' concerns regarding different ethical issues relating to the production of food in California. They found that ethical treatment of animals in the production of meat and dairy products had most support followed by local production and wage for workers producing food. Their study also showed that preferences varied across consumer groups. Women, European-American and younger people were more likely to purchase labels that emphasized ethical treatment of animals. Locally produced labels were likely to be chosen by older people and households with children. Latinos were most concerned about the wages paid to workers involved in the production of food.

The above studies generally support the view that ethical preferences of consumers vary depending on the product in question. However, these studies have either studied a very limited number of product categories or have tested a limited number of ethical issues.

### *Ethical consumerism*

Although there is scarcity regarding literature dealing with consumers attitudes towards specific ethical issues there is plenty of material examining general consumer predispositions towards different ethical scenarios.

A study by Muncy and Eastman (1998) found that consumers that are more materialistic are less concerned about ethical issues. However, the causality between the relationships is unclear. This has implication for the marketing of CSR as it shows that certain segments of consumers will be less affected by CSR initiative irrespective of the ethical issue in focus.

Ramasamy et al (2010) studying customer support for CSR in Hong Kong and Singapore found that self proclaimed religious people were more supportive of social responsible activities and were willing to purchase goods and services from firms that were socially responsible. These consumers were also willing to pay higher prices in return for ethical behavior from firms. The authors advice firms to employ different CSR strategies for the two countries as consumers in these countries are motivated by different value systems. Roberts (1995) used an 18 item scale measured social responsible consumer behavior focusing on the consumers ecological and societal concerns. Using cluster analysis he found that the segment that was most socially responsible was also highly concerned about the environment while the segment that was most ecologically conscious cared least about the social issues. The group that was most ecological conscious comprised of women with high income and education.

In another study Creyer and Ross (1997) show that consumers do take ethical or unethical behavior of business into account when buying. Consumers expect firm to behave ethically and are willing to punish firms that do not. Consumers are willing to pay higher prices for products that are ethically produced and will only purchase similar products from unethical firms at lower prices. Some consumers even actively seek out firms that are ethical which shows the importance of defining clear ethical position.

There are some that found that consumers don't care about ethics. Carrigan, M. & Attalla (2001) found that consumers do not care much about ethics of businesses. However they go on to say that the link between CSR and purchase behavior is unclear. They encourage marketers to conduct research to find out the ethical issues that really matter to consumers and those that have a profound impact on them. Roberts (1996) found that while a large segment of the population cared about social and environmental problems there was also a substantial segment that did not. He also says that demographic factors are not good predictors of socially responsible behavior and that expressed concern about environment or social issues does not necessarily translate into behavior. For this reason Straughan and Roberts (1999) suggest that segmentation should be done based on psychographic factors like liberalism and altruism.

Some researchers have stressed the fact that sufficient information is important in making ethical judgments and that consumers need more information to make ethical purchase (Carrigan, M. & Attalla, 2001; Uusitalo and Oksanen, 2004). In a recent study of factors impeding ethical consumption Bray et al (2011) conclude that consumers need to be fully informed in order to make effective purchase decisions. Shaw et al (2006) studying the role of fair trade on clothing choice found that consumers lacked information regarding the origin of the products and the company's policy regarding sweat-shop produced clothing. The result of these studies show that company's engaging in ethical activities related to a product have a lot to gain if they are effective in communicating their ethical stand.

## **Hypothesis**

Based on the previously cited theoretical and empirical research we propose the following hypothesis.

H1: Faced with a choice, consumers will prioritize utilitarian CSR (product related) activities over ideological (business practices) CSR activities for both high and low involvement products.

H2: Ethical issues that have a direct impact on the consumer will be more important for low involvement products than for high involvement products.

H3: Women give greater importance to environmental attributes for both high and low involvement products than men.

## **Research Objectives**

The main objective of this research is to find the differences and similarities in consumer preferences with respect to ethical and social issues relating to different products. My objective is to find the preference ordering relating to individual products and product categories.

In this paper I will try to categorize products based on the results of consumer preferences with respect to ethical and social issues. For a certain group of products consumers may consider a particular ethical or social issue to be important while for another group of products some other issue might be more relevant. This might help managers with the marketing of CSR activities. Firms producing a certain category of product could thus focus their CSR activities based on the consumers' preference for that category.

Another objective of this paper is to find segment of consumers that have similar attitudes to ethical and social issues with respect to different products and product categories. The review of the literature shows that different segments of consumers differ in their preferences with regard to social and ethical issues.

## **Research Method**

The comparative format used in ranking overcomes the disadvantages faced in the traditional importance rating methodology. The ranking method reduces the problem of uniform response associated with rating scales. Attribute importance rating suffers from social desirability bias and some of the inferences made from this technique depart from actual consumer sentiments (Bacon, 2003). It makes it also hard to distinguish the more important attributes from the less important attributes as consumers can give the same rating to all the attributes (Myers, 1999). The comparative method with ranking the focus is not on the items under comparison but rather on consumers' attitudes and personality traits (Maydeu-Olivares and Brown, 2010). As this method allows for comparing attitudes of different individuals it is suitable for categorizing respondents in groups that share similar perspectives and attitudes.

The ranking methodology takes less time to administer compared to other methods of that force trade-off (Chrzan and Golovashkina, 2006). Ranking attributes helps in finding patterns of consumer behavior simply by allowing the consumer to place the most descriptive attribute first and the least descriptive attribute last. It requires participants to evaluate one attribute in relation to another and is a way of finding out about what people think about a particular issue or topic. This method is particularly suitable when the list of attributes is short, in our case five for every product.

## **Limitations**

Like all empirical research this study is limited in several ways that restrict the generalization of our results. In this paper I have considered preferences for ethical and social attributes in isolation of product attributes. However, in real life purchase situation we can rarely isolated product attributes from ethical attributes. It is difficult to know if consumers would react differently if product attributes like price and quality were mentioned.

Second, we conducted our survey among students so there is no guarantee that the sample represents the broader public with regards to social and ethical preferences. As different consumer segments differ in their preferences of ethical attributes it is questionable if our findings will apply to other consumer segments. Another limitation of collecting data from students is that we have ignored important demographic factors like education. Research has shown that the level of education affects the ethical choices people make. People with higher level of education tend to be better aware of ethical issues and thus make a more informed choice. It is thus legitimate to ask if the results would hold for consumers with lower level of education.

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## Questionnaire

**What is your gender?**

Male

Female

**What is your age?**

19 to 24 years

25-30 years

31 to 40 years

41-50 years

51-65

>65

**Please rank the ethical attributes of products in order of your preference. 1 being the least important attribute and 5 being most important attribute. In this study we assume that product features such as price and quality are important and the focus lies in ethical and social attributes.**

### Example

In this example, no harmful ingredients used is the most important ethical issue and thus is allotted 5 points and no animal testing is considered least important issue and is consequently allotted 1 point.

#### *Detergent*

Minimum wages paid	4
No animal testing done	1
Friendly to the environment	3
Human right issues taken into consideration	2
No harmful ingredients used	5

## High Involvement Products

### 1. Clothes

No use of sweatshop or child labour used in production

No animal testing done

Recyclable package used

Human right issues taken into consideration

Avoiding use of cheap material that may cause irritation to the skin

**2. Shoes**

- No use of sweatshop or child labour used in production
- No cruelty towards animals and animal right issues considered
- Recyclable package used
- Human right issues taken into consideration
- Avoiding use of cheap material that may cause discomfort

**3. Car**

- Safe working conditions for workers
- Avoiding use of undesirable animal products (ex. fur seats)
- Energy efficient and environment friendly (low emission)
- Human right issues taken into consideration
- Sufficient safety information provided

**4. Perfume**

- Safe working conditions for workers
- No animal testing done or byproducts used
- Recyclable package used
- Human right issues taken into consideration
- The contents should not be harmful to the skin

**5. Toys**

- No sweatshop or child labour used in production
- Avoiding undesirable animal products (ex. fur)
- Recyclable materials used and easy to dispose
- Human right issues taken into consideration
- Safe to use for children without adult supervision
- (ex. no small parts that can be swallowed by the children)

**Low Involvement Products**

**1. Batteries**

- Safe working conditions
- No animal byproducts used
- Easily disposable
- Human right issues taken into consideration
- Sufficient safety information provided

**2. Dish washing liquid**

- Minimum wages paid and safe working conditions
- No animal byproducts used or testing done
- Environment friendly
- Human right issues taken into consideration
- Usage doe not leave harmful residue on utensils

  
  
  
  

**3. Carbonated drinks**

- Safe working conditions
- No animal byproducts used
- Recyclable packaging
- Human right issues taken into consideration
- No genetically modified materials used

  
  
  
  

**4. Fruits and Vegetables**

- Minimum wages paid
- No animal byproducts used
- Sustainable methods of production
- Human right issues taken into consideration
- Organic with no genetically modified materials

  
  
  
  

**5. Meat and Fish**

- Minimum wages paid
- No cruelty towards animals
- Avoiding damage to the ecosystem
- Human right issues taken into consideration
- No genetically modified materials used