When firms and customers share social responsibility, profits rise but donations can fall

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Credit: Institute for Operations Research and the Management Sciences

Firms sharing social responsibility for the social good with customers is generally seen as a win-win - more patronage from socially responsible customers and larger benefits to society. A forthcoming study in the INFORMS journal of *Marketing Science*, a leading academic marketing journal, however, questions the premise. The study finds that when a firm shares social responsibility with customers by asking them to "pay what you want," promising a certain percentage of revenues to be donated to charity, consumers respond to whether firms give, but very little to how much they give. A firm only needs to donate very little for customers to open up their wallet - a win for firms, but not for charities and society.

The study titled "Signaling Virtue: Charitable Behavior under Consumer Elective Pricing," authored by Minah Jung of NYU, Leif Nelson of University of California at Berkeley, and Uri and Ayelet Gneezy both from University of California at San Diego examine consumer behavior under the broad umbrella of "shared social responsibility" - where firms and consumers take joint responsibility for the social good. They operationalize shared social responsibility creatively as a variant of "pay what you want pricing," at a major supermarket retailer in which over 27000 customers were offered the option of how much they would pay for the retailer's reusable shopping bag, when a certain portion of their payment goes to a charity.

The surprising finding that customers are very sensitive to whether a portion of their payment goes to charity, but seemingly insensitive to how much goes to charity has critical implications for the design of shared social responsibility programs. In the field experiment, customers paid more than twice as much for a reusable shopping bag when told that 1 percent of their payment would go to charity relative to when nothing would be offered to charity. But they did not pay much more when donations increased to 50 percent, 99 percent or even 100 percent. A little charity goes a long way; a lot more does not go any further.

Digging deeper into this surprising behavior, the researchers found that consumers felt the same level of "warm glow" - the emotional happiness from having done a good deed, irrespective of how much of their money went to a charity. "Consumers feel about the same whether 1 percent or 99 percent of their payment went to charity," said lead researcher, Jung.

The authors dub the pattern that consumers are sensitive to whether firms give to charity, but not how much as "scope insensitivity." Scope sensitivity sounds anodyne, but it is by no means innocuous. Notes Ayelet Gneezy, "It gives firms perverse incentives in how they frame their corporate social responsibility programs. Offering a minimal contribution can increase profit dramatically. But as the charitable contribution increases consumers don't give more, so profits go down. The most profitable strategy for the firm is to give to charity, but the smallest possible amount."

Nelson cautions, "Sharing social responsibility with one's customers sounds like a sure multiplier for the social good. Not so fast. When all customers care is for the warm glow of giving, sharing responsibility with them may not be the promised manna for the social good."

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