Journal of Economic Behavior & Organization 124 (2016) 88–101

Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

An experimental study of corporate social responsibility through charitable giving in Bertrand markets☆

Robert Feicht[a,1], Veronika Grimm[b,2], Michael Seebauer[b,*]

[a] Regierung der Oberpfalz, D-93039 Regensburg, Germany
[b] Friedrich-Alexander University Erlangen-Nürnberg (FAU), Chair of Economic Theory, Lange Gasse 20, D-90403 Nürnberg, Germany

ARTICLE INFO

Article history:
Received 14 June 2014
Received in revised form 7 November 2015
Accepted 9 November 2015
Available online 17 December 2015

JEL classification:
C92
D12
D40
D64

Keywords:
Corporate social responsibility
Competition
Charitable giving
Experiment

ABSTRACT

We experimentally investigate a Bertrand market with homogenous goods in which sellers can announce the donation of a share of their profits to an existing non-profit organization. In a 2 × 2 design, we vary the credibility of announcements and the efficiency of the contributions to the public fund. We find that sellers' donations are strictly positive independently of the credibility of the announcements, and their donations are higher if announcements are credible and efficiency is high. However, market outcomes in terms of prices and profits do not differ significantly in any treatment that allows for contributions to a public fund. Analysis of buyer decisions reveals that prices are the main driver of purchase decisions while higher donations only affect purchase decisions when they are credible and price differences are negligible. Our results indicate that under intense competition the possibility of attracting customers through corporate social responsibility activities is limited, although the constant positive level of contributions suggests that norms lead to a certain minimum level of corporate social responsibility.

1. Introduction

Nowadays, consumers are confronted increasingly with goods that come with a social or environmental cause attached to them. For example, companies offer to vaccinate a child in Africa for each package of diapers sold, to donate 1 Euro to saving rain forests for each crate of beer sold, they firmly commit to social or environmental causes in their basic principles, or they associate their goods with a fair trade label that certifies that the producer of a particular good offer fair trading conditions in its home country. This marketing method, also known as cause-related marketing, is a special form of corporate social responsibility (CSR), which has received a lot of attention recently in the economic literature. There are a number of studies—either survey based (e.g., Loureiro and Lotade, 2005), experimental (e.g., Frackenpohl and Pönitzsch, 2013), or using field data (Elfenbein and McManus, 2010)—claiming that customers are willing to pay premiums when private goods are bundled with CSR efforts.

☆ Financial support by the Emerging Field Initiative (EFI) of the Friedrich-Alexander University Erlangen-Nürnberg is gratefully acknowledged. We thank seminar participants at the Friedrich-Alexander University Erlangen-Nürnberg, as well as the participants at the 2013 Florence Workshop on Behavioral and Experimental Economics and the ESA 2013 World Meeting for helpful comments.

* Corresponding author. Tel.: +49 911 5302 109; fax: +49 911 5302 168.
E-mail addresses: robert.feicht@reg.opf-bayern.de (R. Feicht), veronika.grimm@fau.de (V. Grimm), michael.seebauer@fau.de (M. Seebauer).
[1] Tel. +49 941 5680 375; fax: +49 941 5680 199.
[2] Tel.: +49 911 5302 224; fax: +49 911 5302 168.

http://dx.doi.org/10.1016/j.jebo.2015.11.005
0167-2681/

Our study investigates whether and how the consumers' willingness to pay price premiums for CSR-related goods can affect outcomes in a market environment. In case firms and consumers are attached to similar causes—for example, to raise public funds that improve a common local environment—CSR can be a channel to increase firms' and consumers' contributions to society in areas they jointly care about, and thereby unburden public funds. If firms face competitors, however, the role of CSR is hard to predict. On the one hand, CSR activities can benefit firms by forming valuable relationships and being seen as a positive part of the community[3]; on the other hand, higher costs due to CSR activities might constitute a disadvantage vis-à-vis competitors. Insights of the particular details of the environment that make CSR work (or not) are valuable, since they can inform firms and political decision makers about efficient ways to raise additional funds for public concerns. In order to shed light on the role of CSR in a market environment, we focus on the possibility of investing in CSR activities in a setup with price competition among firms. We ask the following questions. Can firms use CSR activities to differentiate in such a competitive environment? Does CSR activity lead to higher prices and higher profits? In addition, to what extent is it actually used, that is, is it possible to raise considerable contributions to the specific causes?

In order to address these questions we analyze experimental markets for multiple units of a homogenous good with two sellers who engage in price competition, and two buyers. Sellers can announce a donation to a non-profit charity organization that will be attached to every unit they actually sell.[4] In our four main treatments, in a 2×2 design, we vary (i) the credibility of the CSR activity and (ii) the efficiency of provision of public funds through the CSR component. Low efficiency means that donations are passed on simply to the selected charity. High efficiency means that donations are doubled by the experimenter. Thus, on the one hand, we can compare behavior in an environment in which sellers can credibly commit to the donation they announce to an environment in which a seller's actual donation (or CSR activity) may deviate from her previous announcement. The latter reflects the case that customers cannot easily verify the firm's compliance with the announcements.[5] On the other hand, we investigate whether the efficiency of public fund provision through CSR activities influences the firms' options to use CSR in order to alleviate competitive pressure. In two additional control treatments, donations are not an option.

In our data, we find no significant differences in prices or seller profits in any pairwise treatment comparison of our four main CSR treatments. Moreover, none of the four main treatments yields different levels of prices or profits compared to any of the control treatments without the possibility of donation. Typically, buyers tend to choose the seller with the lower posted price in all treatments. Only if announced donations are credible and price differences are very small does a higher announced donation have a positive impact on a buyer's purchase decision. In contrast, the effect of a higher announced donation is negative when it is non-credible and the efficiency the CSR activity is low, which indicates that buyers anticipate cheating on the donation level. We do not find this effect if the efficiency of CSR activities is high, which suggests that in this case, buyers are unsure whether cheating or pro-sociality of the seller causes a high announcement. Average sales prices are significantly higher than the minimum price in all treatments. On average, actual donations are strictly positive but at a low level. Only if the efficiency of the CSR component is high and the announcement is credible do we observe significantly higher donations than in all other CSR treatments; otherwise donations do not significantly differ across the CSR treatments. The cost burden that CSR constitutes is small enough not to cause any treatment differences in buyer and seller profits across all main treatments. Most participants choose local causes when they have to decide on a charity.

Thus, our findings indicate that under price competition the raising of public funds through cause-related marketing by firms is limited. However, they also indicate that CSR activities are not competed away completely. The facts that (i) donations increase if charitable giving through the firm is more efficient and (ii) that predominantly local causes are chosen by the buyers, indicate that participants do care about charitable giving in the experiment. There is evidence for various motives behind CSR activities, though. Positive actual donations in all treatments suggest normative motives, and the fact that announcements in the non-credibility treatments are excessive also indicates strategic motives. In our experiment we observe clearly that institutional details matter, like the efficiency of public funds provision, the specific cause, or the credibility of funding activities. Also, a comparison to other studies on products that are tied to charity suggests that particular details make a difference: Elfenbein and McManus (2010) present evidence that in auctions bidders actively drive up prices early to generate charity revenue. Frackenpohl and Pönitzsch (2013) find that individuals are willing to pay premiums when private goods are bundled with donations, but they do not investigate whether premiums persist under competition among sellers. Studies that consider CSR in experimental setups with competition among sellers (e.g., Rode et al., 2008 or Etilé and Teyssier, 2011) report more ambiguous results on the scope of CSR. Our results complement the literature by showing that the scope of CSR in an environment with price competition and homogenous goods is limited. Our experiments furthermore yield new insights on buyer behavior in response to credible and non-credible CSR under different assumptions on CSR

[3] Cf. Speller (2014).

[4] In the experiment, the respective buyers choose the particular charity organization receiving the donation generated by their own purchase. This is done to ensure that the purchase decision is driven by the buyer's preference to donate in general rather than by her accidental preference for a specific organization chosen by the seller.

[5] One of the most prominent recent cases is Volkswagen's cheating on compliance with emission standards and its commitment to an environment-friendly product policy in principle. According to the VW Group Environmental Policy, "It is the declared aim of Volkswagen in all its activities to restrict the environmental impact to a minimum and to make its own contribution to resolving environmental problems at regional and global level." See http://sustainabilityreport2013.volkswagenag.com/sites/default/files/dd_online_link/de/39_konzern_umweltpolitik.pdf. Credibility is also an issue if responsible production conditions in developing countries are concerned. See Welford and Hills (2009) for the case of China.