

MIT Sloan Management Review

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Does It Pay To Be Good?

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REPRINT NUMBER 50213

Does It Pay To Be Good?

In surveys, customers have long claimed that they'd pay more for ethically produced goods. But is that what happens when they actually buy things? New experiments offer answers.

BY REMITRUDEL AND JUNE COTTE

A LARGE CONSUMER products company has decided to diversify even further by launching a chain of bistros. While trying to determine how it might distinguish itself from its competitors, the chief marketing officer (CMO) suggests a socially responsible differentiation strategy.

"We could sell ethically produced goods, fair-trade coffee and chocolate, in addition to offering locally produced organic fruits, vegetables and meat," she suggests.

Knowing that ethical sourcing is likely to increase costs, the company faces some crucial questions: If it pursues a fair trade and socially responsible differentiation strategy, what sort of consumer will it appeal to? Will consumers pay enough extra in price to recoup the greater cost of production? Do all the products need to be fair trade? If less than 100% of them are fair trade, can the company still maintain its socially responsible positioning?

The era of self-interested companies trying to maximize shareholder wealth at any cost appears to have been supplanted by an era of corporate social responsibility, a phrase used to describe a decision by the company's management to consider the impact their decisions will have on their customers,



THE LEADING QUESTION

Consumers say they like the idea of purchasing ethically produced goods. But will they pay more for them? How much more?

FINDINGS

- ▶ Yes, customers will pay a premium for ethically produced goods.
- ▶ Conversely, they will punish companies (by demanding a lower price) that are not seen as ethical.
- ▶ The punishment exacted is greater than the premium customers are willing to pay.
- ▶ Companies needn't be 100% ethical to be rewarded.

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employees, suppliers and communities, as well as their shareholders.

But as companies consider and strive to limit the negative impact of their operations on society and the environment, some questions remain unanswered: Are consumers willing to reward companies for their positive actions? Will consumers punish them for unethical acts by discounting how much they will pay? And how ethical does a company really need to be to be seen as ethical by consumers? (See “About the Research.”)

Typically, researchers answer these types of questions by relying on surveys of consumer atti-

price to punish unethical companies more than they use price to reward ethical companies, and that the ethicalness of a company’s behavior is, indeed, an important consideration for consumers (as demonstrated in their willingness-to-pay decisions).

The conclusion is inescapable: Doing good will lead to doing well, and to ultimate profitability.¹

Why Would We Be Willing to Pay More?

The assumption that individuals are motivated by selfishness is widely accepted in social psychology and economics. So why would consumers ever pay more for ethical goods (defined here as products that are produced under conditions of progressive stakeholder relations, advanced environmental practices and respect for human rights)?

It is generally accepted that people help others because ultimately it benefits them in some way. Research has shown two main classes of egoistic behavior for helping: reward-seeking (such as gaining social approval) and punishment-avoiding² (we don’t want to feel guilty or generate negative feeling in others).

More specifically for our purposes, with respect to consumer response to corporate social responsibility, we assume people will reward ethical behavior and punish those who act unethically. The most obvious way to reward a company is by buying its products at a premium price; punishing a company can be similarly accomplished by discounting the value of its product (reducing the price one is willing to pay).

Most marketing research has focused on the relationships between corporate associations or expectations and consumer response.³ But the attention has been on the relationship between favorable corporate actions and consumer behavior. That is, the research addresses the question of how consumers react to *positive* CSR activities.

And yet one of the most generally accepted and far-reaching phenomena in psychology is the asymmetry in the way people react to positive and negative information about a subject.⁴ Consumers treat negative and positive information differently: Individuals react more strongly to negative information than to positive information, and negatively-valenced events have a greater impact

THE PROBLEM WITH THE PREVIOUS RESEARCH

In a pioneering study examining consumer response to corporate behavior, Creyer and Ross¹ examined consumer intentions to reward or punish corporate behavior. They found that consumers expected companies to behave responsibly and that they were prepared to punish those that did not. While important in establishing a theoretical link between company behavior and consumer expectations, the authors did not examine specific consumer reactions to company behavior or consumer willingness to pay.

Only two recent studies have specifically investigated willingness to pay. In the first, consumers’ actual buying behavior was inconsistent with their positive attitudes toward ethically produced products.ⁱⁱ Specifically, consumers were willing to pay more for ethical products than one would expect from their surveyed attitudes. In the second, researchers were able to provide estimates of the relative value that consumers placed on certain products’ social features.ⁱⁱⁱ We also know from research, although not based on willingness to pay, that cause-related marketing influences consumer choice, especially when there is a good fit between the brand and the cause supported by the company.^{iv} The findings of these studies suggest that ethically produced products matter to consumers; what we do in our research is to put a price on how much it matters to them.

tudes. Not surprisingly, those do not always reflect actual behavior, because linking actual consumers’ spending behavior in the market to specific company decisions is very difficult. (See “The Problem With the Previous Research.”)

We conducted a series of experiments that proved three things.

- Consumers are in fact willing to pay more for ethically produced goods.
- Consumers will demand a substantial discount from companies that produce goods in an unethical manner.
- And, consumer responses suggest that a small degree of ethical production “pays off” as much as a heavy investment in ethical production.

This is the first study to find that consumers use

on individuals than positively-valenced events.

Importantly for our work, researchers discovered that the impact of morally good behaviors was easily eliminated by new information about immoral behavior.⁵ However, they did not find the opposite; the impact of immoral behaviors was not eliminated by new information concerning morally good behavior.

These researchers argue that people use available cues to assign a target (for example, a company) to a category.⁶ A company that exploits foreign workers probably belongs in the unethical category, even though there is a real — but lesser — probability that it belongs in the ethical category.

Based on this large body of knowledge, we expected these positive-negative asymmetries to play a predictable role in people's willingness to pay for ethically produced goods. Specifically, given the previous research,⁷ we expected the impact of negative (unethical) product information to have a greater impact on consumers than positive (ethical) product information. We expected consumers would discount the price of unethically produced goods by more than the premium they would pay for the same goods produced ethically.

To find out if we were right, we designed a series of experiments revolving around what consumers would pay for coffee. We chose coffee because the subjects selected were very familiar with the product and the price range tested was well within their financial means, making the choice as realistic as possible. Unlike many goods, coffee has relatively few attributes that lead to consumer preferences, making consumer product expectations fairly consistent.

Experiment 1

Coffee-drinking adult consumers were randomly divided into three groups, and given three different messages. All three scenarios were similar in every way except for the ethical information manipulations. Our development and wording of the scenarios was consistent with prior research on CSR and consumer response.⁸

The first group (labeled Ethical) read the following about the coffee they would be asked to purchase:

“A local grocery store is currently running a market

ABOUT THE RESEARCH IN THIS ARTICLE

Most, if not all, of the prior research, *assumes* a positive, direct link from corporate social responsibility to corporate performance — though there is little conclusive empirical data to prove it. Also, most existing research does not assess the important role of consumers.^v

Our three experiments were designed to address those issues. We empirically assessed the role the consumer plays in ultimate company profitability through revenue generated by the prices that consumers are willing to pay for the company's products.

Of course, increased costs are often involved in ethical production. Conversely, there may be increased long-run costs with unethical production (lawsuits, boycotts, etc.). We focus here on the revenue side of the equation, acknowledging that cost factors must also be considered. If socially responsible behavior by companies influences consumer willingness to pay, then company profitability will also ultimately be influenced by corporate social responsibility.

This research is an important step towards understanding the consumer psychology influencing the price a company can charge. But we believe the impact of our work goes beyond specifically defining the link between ethical corporate behavior and a consumer's willingness to pay. Indeed, we believe we have made an important contribution to the ongoing debate concerning the link between CSR and company performance with our explicit demonstration of positive and negative asymmetries, our examination of the degree of ethicalness needed for a company to receive a price premium, and the role of consumers' prior expectations.

The majority of consumer research investigating CSR has used survey instruments to measure attitudes and infer consumer behavior. By using more rigorous experimental designs, we are able to make the claim that the positive act has less of an impact on willingness to pay than the negative act. While researchers have studied asymmetry effects in other domains, few have done so with evidence of equally valenced scenarios, which automatically raises the question of a manufactured asymmetry effect. That is, in some prior research the “bad” information was much stronger in the research design itself than the “good” information. Equally valenced scenarios are absolutely necessary to be able to convincingly support asymmetry effects. Our study design also eliminated the possibility of brand contamination effects by using brands that participants had no knowledge of.

survey of new product offerings. One of the products is the premium coffee brand Café Direct. Your evaluation of the product will influence the decision of whether the outlet chooses this product over others.”

They then read information about the taste and character of Café Direct's coffee, before finding a final paragraph that read, “Café Direct is a fair-trade coffee. Fair trade is a trading partnership, based on dialogue, transparency and respect, that

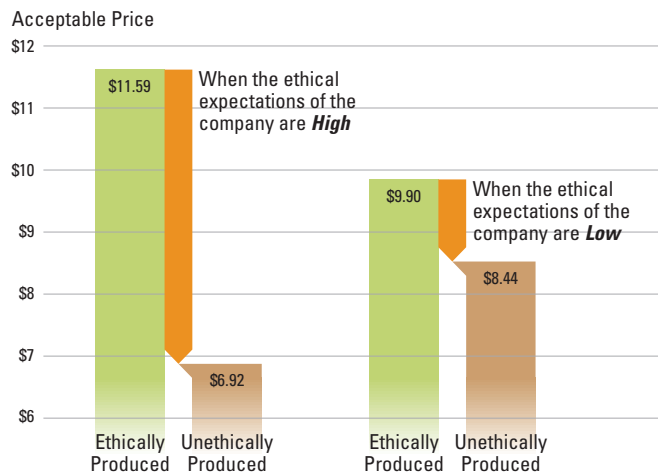
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seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, coffee bean farmers. Fair trade organizations are engaged actively in supporting producers and sustainable environmental farming practices. Fair trade practices prohibit child or forced labor.”

The second group (Unethical) read the following: “A local grocery store is currently running a market survey of new product offerings. One of the products is the premium coffee brand Café Direct. Your evaluation of the product will influence the decision of whether the outlet chooses this product over others.”

THE EFFECT OF CONSUMER EXPECTATIONS ON WILLINGNESS TO PAY

If consumers’ ethical expectations of companies in general are high, they both punish and reward producers for their behavior more than low-expectation consumers do.



The information continued with the same product information as before, but the last paragraph was different: “Café Direct has been criticized for unsustainable farming practices that may be harmful to the environment. They have further been criticized for unfair trade practices and for employing underage children.”

The third group (the Control, labeled as buyers of “Typical” coffee in the chart, “Is It Really Worth It? Reward and Punishment for Ethical Production”) was given no ethical information at all which is, of course, similar to what shoppers would typically have in a store: “A local grocery store is currently

running a market survey of new product offerings.... Your evaluation of the product will influence the decision of whether the outlet chooses this product over others...” And so on, without comment on Café Direct’s production practices.

After reading about the company and its coffee, people responded to measures of their willingness to pay for one pound of the coffee, using an 11-point scale ranging from \$5 to \$15, at one dollar intervals.

Finally, a question assessing an overall attitude toward fair trade practices followed, with three possible responses that ranged from a preference for the market to sort out the trade rights of farmers and sustainable farming practices, to a response indicating the absolute necessity of regulatory protection of farmers’ trade rights and farming practices, with the middle answer, which served as our control, being a combination of market and regulation.

Our results showed that the premium consumers would pay as a reward for fair trade practices was \$1.40 per pound, while the punishment/discount for unfair trade practices was \$2.40 per pound. Thus, negative information concerning trade practices had almost twice the impact of positive information on the coffee consumer’s willingness to pay. (See “Is It Really Worth It? Reward and Punishment for Ethical Production,” p. 66.)

These results offer important managerial insights regarding the extent to which consumers are willing to reward ethical behavior and punish unethical behavior through willingness to pay.

How Good Do We Have to Be?

Of particular concern to business is the issue of how ethical the company actually needs to be to be rewarded. Do consumers respond to different levels of ethicalness? For example, do people feel the same about buying a product that is 100% ethically produced versus a product with only a certain ingredient or percentage of the product ethically produced?

We expected that the impact of negative (unethical) product information would have a greater impact on consumers than positive (ethical) product information. But surprisingly to some, we also believed the degree of a company’s ethicalness would *not* have a significant impact on consumers’

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perception.⁹ Additional ethical acts (or increased ethicalness), we thought, would simply affirm the target company’s position within the category.

More specifically, we went into our experiments expecting that consumers would not pay a surplus for a product that is 100% ethically produced over products for which some ingredient or a percentage of the product is ethically produced. That is, once the company was categorized by a consumer as ethical, it would be different from unethical and its products would be seen as ethical whether they were 100% “pure” or not.

We decided to test these ideas by conducting another experiment, this time in a different product domain (cotton T-shirts). What we add here is a test of the positive-negative asymmetry across different levels of company ethical behavior. More specifically, we tested whether consumers are willing to pay more for a product that is 100% ethically produced versus one that is 50% or 25% ethically produced.

We used percentage of organic cotton as our manipulation of degree of ethicalness. That not only allowed us to objectively manipulate the degree of ethicalness, but it also is consistent with some marketing strategies employed in practice.

Experiment 2

Potential consumers of cotton T-shirts were divided at random into five groups.

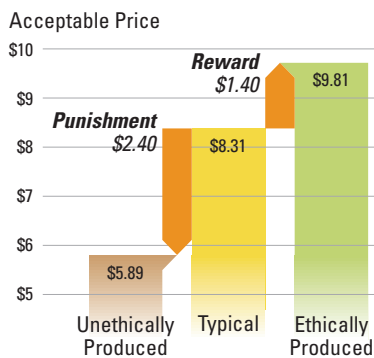
The first (100% Ethical) read the following:

“Conventionally grown cotton uses more insecticides than any other single crop and epitomizes the worst effects of chemically dependent agriculture. Each year cotton producers around the world use nearly \$2.6 billion worth of pesticides — more than 10% of the world’s pesticides and nearly 25% of the world’s insecticides.

“Danisky is the leading textile and clothing company based in the European Union specializing in organic cotton outdoor wear for active people. Growing cotton organically entails using cultural practices, natural fertilizers, and biological controls rather than synthetic fertilizers and pesticides. Danisky has been recognized for its outstanding environmental record. All of Danisky’s products are 100% organic.

IS IT REALLY WORTH IT? REWARD AND PUNISHMENT FOR ETHICAL PRODUCTION

When informed about coffee having been produced unethically, ethically, or typically (“Control”), buyers responded by paying a \$1.40 premium or a \$2.40 discount.



The second group (50% Ethical) read the same information about conventional-vs.-organic cotton and about Danisky’s business — except for the last sentence, which was changed to: “All of Danisky’s products are 50% organic.”

The third group (25% Ethical) again received the same information, except for a final sentence that read: “All of Danisky’s products are 25% organic.”

The control group was given no ethical information at all.

And **the last group (Unethical)** was given information that put the company in the worst possible light. After the general information, they read: “Pesticides used on cotton — even when used according to instructions — harm people, wildlife and the environment. Danisky uses cotton from Pakistan, where the insecticide methyl-parathion is used extensively. All of Danisky’s products are 100% cotton.”

As we expected, the average willingness to pay for all three ethical conditions was significantly higher than for the unethical condition. Once again, people were willing to pay substantially more for all levels of ethical production than they were for unethically produced merchandise.

Recall that we expected participants to be more willing to pay more for all levels of ethical produc-

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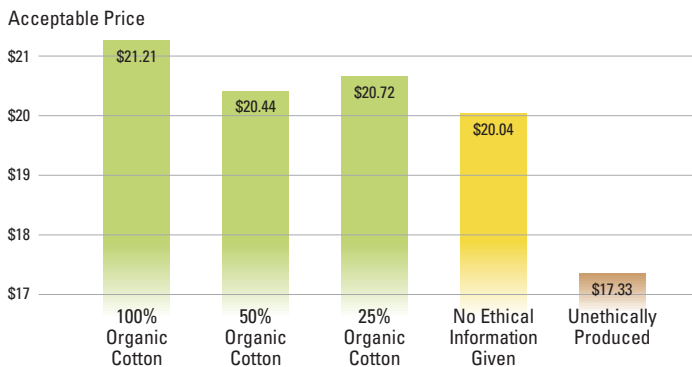
tion, and to discount the price of an unethically produced item by more than the premium they would pay in any of the ethical conditions. In this study we again found this obvious asymmetry in the negative domain, where consumers' willingness to pay in the unethical condition was proportionately much less than any premiums of consumers' willingness to pay in the ethical condition.

Consumers perceived (and rewarded) all levels of ethical production similarly. They did not reward increasing levels of ethical production with increasing price premiums.

Our results suggest that once a certain threshold is attained, additional ethical acts or increased ethicalness simply affirms the target company's position within that category and will not change consumers' willingness to pay.

WHAT CONSUMERS ARE WILLING TO PAY FOR VARYING DEGREES OF ETHICAL PRODUCTION IN COTTON-SHIRTS

Consumers perceived (and rewarded) all levels of ethical production similarly. They did not always reward increasing levels of ethical production with increasing price premiums.



Having demonstrated that consumers will reward even a small amount of ethical behavior and punish unethical behavior, we addressed whether these findings are the same for all consumers.

What About Consumer Differences?

While there have been some notable exceptions,¹⁰ the focus of the majority of the work on positive-negative asymmetries regarding what consumers are willing to pay for ethical behavior largely ignores individual differences between consumers that could directly influence their expectations of company behavior.¹¹

In the case of unethical behavior (e.g., overseas labor exploitation), it is likely that consumers with *high* corporate ethical expectations assume companies work in society's best interests, so a strong negative asymmetry is expected; these consumers would punish unethical behavior more harshly and proportionately than they would reward ethical behavior (e.g., fair labor practices overseas).

However, if consumers already believe that companies will be self-serving and profit-focused (that is, they have *low* prior ethical expectations of companies), we would expect the asymmetry between positive and negative to be less severe.

Specifically, we expected that ethical-product information would have a greater impact when consumers have high prior ethical expectations of companies. Consumers with high ethical expectations would discount the price of an unethically produced good by more than consumers with lower ethical expectations, and the positive-negative asymmetry would be attenuated. Our last study explored this idea.

In this final experiment, we again tested coffee consumers' reactions to fair trade labor practices (as described in our first experiment). However, in this study we first measured the proposed moderator: prior consumer ethical expectations of the company.

Coffee drinkers were randomly assigned to one of three conditions (positive ethical information, negative ethical information, or a control condition in which no ethical information was provided). The scenarios and conditions were as described in Experiment 1. What was new in this study was our measurement of consumer ethical expectations of the company.

Based on how they answered, people were placed into two groups for our analysis: high expectation consumers and low expectation consumers. Once again we found that, regardless of their prior expectation, consumers were willing to pay more in the ethical condition than when they had no ethical information or when they had unethical information about the company. Here again there was a substantial difference (more than \$3 a pound) in mean willingness to pay between ethical and unethical conditions.

But consistent with our thoughts about a positive-negative asymmetry, there was also a

significant difference in willingness to pay between the ethical and control conditions that was proportionately less than the difference between the unethical and control conditions. In the unethical condition, in comparison to the ethical condition, the impact of negative information on the participants' willingness to pay was 1.7 times that of the positive information.

Interestingly, consumers' ethical expectations moderate the relationship between ethical behavior and willingness to pay, as we expected. That is, consumers with higher ethical expectations of companies both reward (paying \$11.59 per pound in comparison to \$9.90) and punish (paying \$6.92 per pound in comparison to \$8.44) companies to a greater degree (with greater increases and decreases in prices paid, respectively) than those with low ethical expectations of companies. (See "The Effect of Consumer Expectations on Willingness to Pay," p. 64.)

Our results show that ethical and unethical product information has a greater impact on consumers when consumers have high ethical expectations of companies, that is, consumers both punish and reward to a greater extent when their prior ethical expectations are high. When consumers have low ethical expectations of companies, ethical and unethical product information has no impact on their willingness to pay.

Thus, we quite robustly replicate our findings that consumers reward ethical behavior and punish unethical behavior with an asymmetric effect.

Conclusions and Implications

Consumers are willing to pay substantially more for ethically produced goods than for unethically produced goods, suggesting that there is a financial reward for socially responsible behavior. The managerial implications of these findings are clear: Act in a socially responsible manner and you may be able to charge more for your products.

Perhaps it is even more important to note that consumers will punish the producer of unethically produced goods to a greater extent than they will reward a company that offers ethically produced products. *The negative effects of unethical behavior have a substantially greater impact on consumer willingness to pay than the positive effects of ethical*

behavior. Consumers may still purchase your products if they are unethically produced, but they will only do so at a substantial discount.

For both managers and researchers, our results concerning the effect of the degree of ethicalness point to some potential intriguing avenues for further inquiry. For example, we found no differences

The negative effects of unethical behavior have a substantially greater impact on consumer willingness to pay than the positive effects of ethical behavior.

in consumer price reactions to products that were 25%, 50% and 100% ethically produced. However, we weren't able to pinpoint the exact threshold value necessary for consumers to consider the company ethical.

This is of obvious practical importance, with many companies choosing to have only a portion of their offerings ethically produced and certified. For instance, only a percentage of Starbucks Corp. coffees are certified "fair-trade."

Our results show that gains may be made with ethical positioning in the marketplace, and thus companies' efforts to move toward ethical production and to promote that ethical behavior appear to be wise investments. (In this research, we do not address the production side of the equation: Businesses will of course still need to consider the potentially higher costs they might incur.)

Although we do not examine it here, future work could look at the difference between ethical positioning as espoused by the company and ethical positioning trumpeted by a third party. One would expect that having *The New York Times* write about how ethical a company is would influence consumers more strongly than having the company announce it in its own advertising and promotion. If this is the case, then public relations are going to be critically important in achieving price premiums for ethical company behavior.

Given all this, we would advise the fictional CMO (from our opening scenario) to:

1. Pursue a socially responsible differentiation strategy. Consumers will pay a premium for ethically

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produced and sourced products, as long as they are made aware of it. Therefore, promote it so that consumer knowledge translates into willingness to pay.

2. Stay away from goods that are known by consumers to be unethically produced or pay the price (that is, know that your consumers will *not* pay the price).
3. It may not be necessary for all your products to be fair trade; select your most highly visible products and make them the “flagship” ethically produced goods. (But be aware that if 100% fair trade becomes expected, anything less may be perceived as unethical.)
4. Segment your market and offerings to consumers through messaging and media; finding consumers with high existing ethical expectations of companies will allow an even greater price premium.

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