

# Investigating the Relationship between Perceived CSR Adoption, Cost and Price Markup

**Margarita Komninou**

University of Patras

**Christos Livas**

University of Patras

**Efthimios Dragotis**

University of Patras

Cite as:

Komninou Margarita, Livas Christos, Dragotis Efthimios (2023), Investigating the Relationship between Perceived CSR Adoption, Cost and Price Markup. *Proceedings of the European Marketing Academy*, (117190)

Paper from the EMAC Regional Conference, Athens, Greece, September 27-29, 2023



# **Investigating the Relationship between Perceived CSR Adoption, Cost and Price Markup**

## **Abstract:**

Growing public demand for sustainable and ethical business practices has imposed significant pressure for companies to embrace Corporate Social Responsibility (CSR). Prior literature illustrates that strategic incorporation of CSR practices can deliver benefits for companies. Nonetheless, endeavours to develop meaningful CSR activities and policies may result in additional costs for a company, leading to price markups which consumers may view as unfair. Utilising survey data (n=222), this study proposes a novel conceptual model on the connection between CSR and perceived price fairness, by examining the relationships between perceived CSR Adoption, Costs, and Markup. Results indicate that consumers perceive socially responsible brands to be burdened with CSR related costs and charging a related markup. However, CSR costs alone are not a significant predictor of CSR markups.

**Keywords:** *CSR adoption, CSR Cost, perceived markup*

## **1. Introduction**

Corporate Social Responsibility (CSR) has emerged as an essential strategic component for businesses seeking to gain competitive advantage (Porter and Kramer, 2006). CSR refers to the integration of social and environmental concerns into a company's business operations and interactions with stakeholders (Carroll, 1999). The growing public demand for sustainable and ethical business practices has led companies to embrace CSR practices (Maignan and Ferrell, 2004). The adaptation of CSR practices and their incorporation into business and marketing strategy can deliver significant benefits for companies; in general CSR practices are thought to facilitate differentiation of products and services, enhance brand image and foster customer loyalty (Kotler and Lee, 2005), and may also improve reputation, attract and retain talented employees (Bhattacharya and Sen, 2004). Previous research has also indicated that CSR can boost financial performance (Orlitzky, Schmidt, and Rynes, 2003; Jo and Harjoto, 2012), albeit with variations across industries, regions, and CSR dimensions (Frynas and Yamahaki, 2016; Busch and Friede, 2018). Overall, either from a strategic or from a social perspective, engagement with CSR has been growing to the point of becoming mainstream, while the adoption of such practices can be seen in a variety of scientific fields.

In this context, it is widely accepted that CSR can positively impact consumer behaviour and particularly buying intention (Becker-Olsen, Cudmore, and Hill, 2005; Luo and Bhattacharya, 2006). Such view rests on the assumption that consumers will reward businesses for their socially responsible profile, often regardless of the price of their product. This outcome can be explained through (at least) two separate mechanisms: a. consumers may prioritize CSR over price and/or b) positive CSR evaluations about a company may be transferred to its products' performance. The extent to which consumer preference to reward socially responsible businesses is the result of conscious consumer choice or halo effects, is still unclear (Bhattacharya, Good, Sardashti, and Peloza, 2021).

Moreover, endeavours to develop meaningful CSR activities and policies may result in additional costs for a company, leading to price increases (or markups) to compensate for. Since price continues to represent an important dimension in consumer decision making, it is not uncommon for price conscious consumers to be facing complex moral dilemmas in their attempt to reward socially responsible companies and subsequently contribute to the development of more a sustainable, fair, and environmentally friendly society. Consumer support is focal to the realization and success of CSR efforts, and consequently it becomes necessary to advance current scientific knowledge that can explain and encourage CSR support.

Utilising data from a quantitative study (n=222), this study proposes a narrow but novel conceptual model grounded in relevant marketing literature (Habel, Schons, Alavi, and Wieseke, 2016; Bhattacharya et al., 2021) and explores the relationships between perceived CSR adoption, perceived CSR cost and perceived markup. An examination of the dynamics and interplay between these three concepts (consumer perceived CSR Adoption, Cost and Markup) contributes to existing understandings of consumer CSR support, and particularly consumer's willingness to pay higher prices for socially responsible products.

## **2. Literature Review and Hypotheses Development**

Carroll (1999) was among the pioneering scholars who classified corporate responsibilities thought the development of a pyramid model that incorporated four distinct categories: economic, legal, ethical, and philanthropic responsibilities. Since then, contemporary approaches to corporate social responsibility (CSR) have shifted towards more

comprehensive classification systems, such as the Holistic CSR Approach which traces the implementation of CSR across various domains (Ashbridge, 2005; Blowfield and Murray, 2008; ISO 26000, 2012). According to the Holistic CSR Approach and related models, the implementation of CSR can be achieved across several areas, including the natural environment, workplace and employee relations, stakeholder engagement, supply chain management, marketplace dynamics, local community involvement, as well as the organization's values, vision, and leadership, thus shaping its cultural policy. Businesses adopt various CSR strategies within each domain and prioritize their CSR initiatives according to the specific requirements of the economic sector in which they operate. Organizations may anticipate that implementing specific CSR strategies will yield varying rewards depending on the area of CSR in which they engage. To embrace a broad spectrum of CSR activities, this paper examines CSR implementation in the following four fundamental domains: environmental stewardship, local community involvement, employee welfare, and corporate philanthropy/charitable giving.

Consumers who demand from businesses to act ethically and responsibly tend to reward CSR engagement with their purchase behavior. It is often anticipated from both consumers and businesses that CSR adoption drives prices higher; the implementation of CSR activities often require extra human and economic resources, ultimately leading to an extra cost that will increase a product's final price. Economic costs of CSR reflect financial resources invested in responsible actions, practices, policies, and programs. Balakrishnan, Sprinkle and Williamson (2010) mention both financial and non-financial costs occurring due to engagement with CSR practices, including donations, the introduction of specific new products, and time wasted in other procedures which often require sacrificing (some level of) productivity. Other CSR related costs may stem from the introduction of 'green activities', such as recyclable packaging, that are usually more expensive than the traditional profit maximizing business philosophies (Sprinkle and Maines, 2010). Overall, when consumers perceive a firm to engage with CSR, then they are more likely to perceive that such engagement incurs CSR related costs, particularly because of the costs associated with prosocial activities (Habel et al., 2016). It is, thus, hypothesized that:

H<sub>1</sub>: Perceived CSR adoption has a significant positive impact on perceived CSR cost.

Moreover, Chandler and Werther (2014) posit that a common practice for businesses who engage with CSR is to incorporate occurred cost of these CSR activities to the price of products or services offered through a markup. Literature to date implies that consumers' reaction to such a strategy is rather ambivalent (Habel et al., 2016). On the one hand, prior research suggests that consumers may be willing to pay higher prices for socially responsible products (Tully and Winer, 2014; Carvalho, Sen, de Oliveira Mota, and de Lima, 2010; Matute-Vallejo, Bravo, and Pina, 2010) and, hence, accept potential price increases (Luo and Bhattacharya, 2006; Mohr and Webb, 2005). On the other hand, empirical evidence also indicates that some consumers may also expect businesses to bear the cost burden of CSR adoption (Habel et al., 2016) and be disappointed if CSR related costs are eventually passed on to consumers through a price raise. Despite such varying views amongst consumers on who should ultimately suffer CSR related costs, the relationship between perceived CSR cost and perceived markup seems to be indicative of the consumer's perception about CSR price fairness. It follows that prices could potentially, and under circumstances (Habel et al., 2016), seem fairer to consumers when they include a markup that (in the mind of consumers) is closely associated to the cost of CSR adoption.

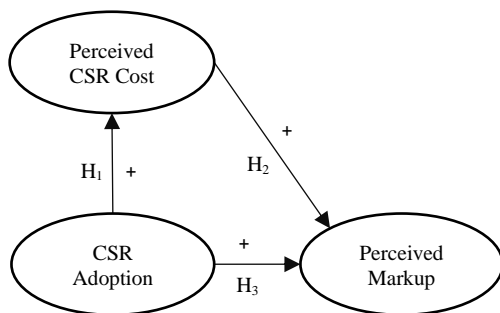
In view of the above and given that consumers appear to often anticipate higher prices for the products of socially responsible businesses (Öberseder, Schlegelmilch, and Gruber, 2011), it is hypothesized that:

H<sub>2</sub>: Perceived CSR cost has a significant positive impact on perceived markup

Lastly, prior studies have indicated that consumers who are receptive to CSR efforts and prioritize business responsible behavior in their purchasing decision making process are often willing to pay more to reward CSR adoption (Luo and Bhattacharya, 2006; Mohr and Webb, 2005). Irrespective of the actual additional cost that may (or may not) occur due to CSR activities, this willingness to accept a price markup could reflect an understanding from the part of the consumers that socially responsible companies do face increased costs. In this sense, perceived engagement with CSR could be expected to have a positive relationship with a perceived price markup. Therefore, the third and final hypothesis for this study is the following:

H<sub>3</sub>: Perceived CSR adoption has a significant positive impact on perceived markup

The following figure (Figure 1) depicts the study's conceptual model according to the set hypotheses:



**Figure 1.** Conceptual model on the relationship between perceived CSR Adoption, Costs and Markup

### 3. Research Design

To assess the relationship between perceived CSR Adoption, CSR Cost and Markup, the present study employed a quantitative (survey) research methodology. Data for this study were collected between September 2022 and October 2022 through a questionnaire that was administered online. An extensive introductory note at the beginning of the questionnaire informed respondents about the study's aim and scope, the handling of all collected data and the respondents' rights according to the EU Regulation 2016/679 (i.e., GDPR). Before filling out the survey questionnaire respondents were asked to indicate their informed consent for their participation in the present study.

#### 3.1 Sampling method, sample size and demographics

The study adopted a non-probability (convenience) sampling method and the final sample consisted of 222 respondents. 27,5% of participants were male and 72,1% were female. Most respondents were at that time in employment (73,4%) and had successfully finished tertiary education (64,4%). Considering marital status, 21,2% of respondents were married, 41,9%

were not married and 33,8% were in a relationship. Finally, regarding income, 39,2% of respondents reported earnings of up to 10.000 euros, 34,7% between 10.001 and 20.000 euros, 17,6% between 20.001 and 30.000 euros and 8,6% of more than 30.000 euros per year.

### 3.2 Measurement

The survey questionnaire was separated in two parts. The second part, which was placed at the end of the questionnaire, included five questions about demographics (gender, employment status, level of education, marital status, and income). The first part, i.e., the main part, of the survey questionnaire consisted of fourteen items (measured in a 5-point Likert scale) which referred to the three distinct concepts that were used in the study's conceptual model, i.e., perceived CSR Adoption (eight items), perceived CSR Cost (three items) and perceived economic Markup (three items) (Habel et al., 2016).

To achieve a satisfactory model fit, results from a Confirmatory Factor Analysis (see Table 1) required the removal of four (4) Likert items from the initial scale measuring CSR Adoption (i.e., ecology, environment, employee care and treatment). The resulting CSR Adoption scale encompassed four (4) Likert items referring mainly to donations and local community support. Perceived CSR Cost consisted of three (3) items, relating to the cost of social activities, projects, and engagement. Lastly, the Perceived Markup variable was measured with only one indicator variable.

Reliability and validity were deemed satisfactory as Cronbach's alpha ( $\alpha$ ), AVE and Composite Reliability (CR) values were within accepted levels (i.e.,  $\alpha$ , Spearman-Brown and composite reliability values  $> 0,7$ ; AVE  $> 0,5$ ; MSV  $< \text{AVE}$ ) (Hair, Black, Babin, and Anderson, 2014).

**Table 1.** Confirmatory Factor Analysis

	$\alpha$	CFA ( $\beta$ )	AVE	CR	MSV
<b>CSR Adoption</b>	0,910	-	0,788	0,937	0,659
<i>... donate parts of their earnings to charity...</i>		0,809			
<i>... donate money for people in need.</i>		0,850			
<i>... local community support projects.</i>		0,778			
<i>care for the people in the communities...</i>		0,841			
<b>Perceived CSR Cost</b>	0,821	-	0,737	0,893	0,659
<i>...considerable costs for their social activities.</i>		0,676			
<i>... invest in social projects is very large.</i>		0,922			
<i>... very high costs for ... social engagement.</i>		0,655			
<b>Perceived Markup</b>	-	-	-	-	0,388
<i>... markup for ... support of good causes.</i>					

**Notes:** (1) CFA Fit Statistics: CMIN/DF = 1,544; P = 0,75; CFI = 0,992; TLI = 0,987; RMSEA = 0,050; PCLOSE = 0,465; SRMR = 0,037 (2) AVE and MSV stand for Average Variance Extracted and Maximum Shared Variance respectively, and they are used as measures of convergent and discriminant validity.

## 4. Results

Statistical analyses were performed with use of SPSS v.28 and AMOS v.24. Descriptive statistics of the summated latent variables (see Table 2 bellow) suggest that consumers agree with the notion that socially responsible companies act in ways to promote societal welfare

(3,49 out of 5). Furthermore, respondents do perceive that socially responsible companies are burdened with substantial CSR costs (3,27 out of 5) and introduce a price markup for their CSR initiatives (3,45 out of 5).

**Table 2.** Descriptive statistics

<b>Variables</b>	<b>Mean</b>	<b>Std. Dev.</b>
CSR Adoption	3,49	1,098
Perceived CSR Cost	3,27	0,910
Perceived Markup	3,45	1,091

**Notes:** (1) n =222; (2) Respondents rated each item on a scale from 1 (completely disagree) to 5 (completely agree).

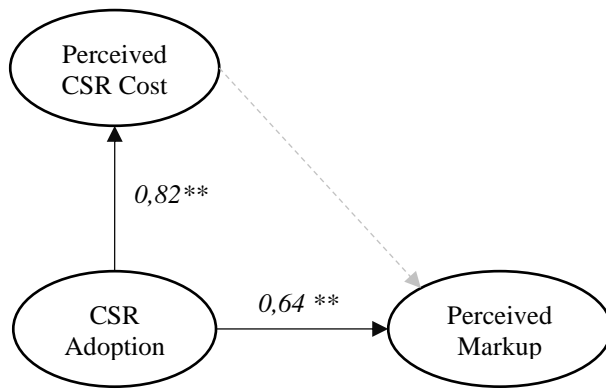
The Spearman’s bivariate correlation tests (Table 3) revealed strong, positive, and statistically significant connections among the three main variables of the study. Results indicate that perceived CSR Adoption is significantly and positively associated with perceived CSR Cost ( $\rho = 0,641$ ,  $p = 0,001$ ). Furthermore, perceived Markup is significantly and positively associated with perceived CSR Adoption ( $\rho = 0,565$ ,  $p = 0,001$ ), and perceived CSR Cost ( $\rho = 0,495$ ,  $p = 0,001$ ).

**Table 3.** Bivariate correlations

	CSR Adoption	Perceived CSR Cost	Perceived Markup
CSR Adoption	1	0,641**	0,565**
Perceived CSR Cost		1	0,495**
Perceived Markup			1

**Notes:** (1) n = 222; (2) Spearman’s rho was employed to accommodate for the inclusion of ordinal variables (i.e., internet usage frequency) and the deviation from normal data distribution; (3) \*\*. Correlation is significant at the 0.01 level (2-tailed).

To simultaneously examine the research hypotheses among variables of interest, the study employed a confirmatory modelling strategy (Hair et al., 2014). The resulting structural model (see Figure 2 below) was characterized by satisfactory model fit (CMIN/DF = 1,544;  $p = 0,75$ ; CFI = 0,992; TLI = 0,987; RMSEA = 0.050; PCLOSE = 0,465). However, not all parameters were significant and thus one hypothesis was unsupported. More specifically, perceived CSR Adoption was found to have significant positive effects on perceived CSR Cost ( $H_1$ ,  $b = 0,82$ ,  $p < 0,001$ ) and perceived Markup ( $H_3$ ,  $b = 0,64$ ,  $p < 0,001$ ). Perceived CSR Cost did not have a significant effect on perceived Markup, and thus  $H_2$  was not supported. Overall, consumer perceptions indicate that business commitment to CSR (i.e., CSR Adoption) results to substantial costs for the business and an additional price markup. Nevertheless, the introduction of a CSR related markup appears to be irrelevant to the potential CSR costs incurred by responsible businesses.



**Figure 2.** The study's Structural Model

## 5. Discussion and Conclusion

The present research examines the connection between CSR and perceived price fairness, by focusing on the relationships between perceived CSR Adoption, perceived CSR Cost, and perceived Markup. A substantial stream of research has focused on the extent to which CSR adoption comes with an extra charge (i.e., markup) for consumers. According to some studies, customers appear to accept CSR related price increases and consider them fair (Luo and Bhattacharya, 2006; Mohr and Webb, 2005; Öberseder et al., 2011). Other studies posit that consumers may not perceive CSR related price increases as fair (Habel et al., 2016). Results from this research indicate that consumers believe that socially responsible brands are burdened with CSR related costs and charge a CSR related markup. However, CSR costs do not appear to be a significant predictor of markup.

These findings are subject to multiple interpretations. The insignificant relationship found in this study between CSR cost and markup suggests that consumers may not perceive CSR related price increases as always driven by higher business costs. In other words, potentially higher prices charged by socially responsible companies may be perceived by consumers as just another profit-making tactic. Companies with a CSR profile may find it easier to differentiate from competing brands and thus, command higher prices for their offerings. Overall, if a final price is perceived as unrelated to perceived CSR cost, then the price markup is more likely to be perceived as unfair by consumers.

Another potential implication of the present study's findings relates to disadvantaged consumers' accessibility to environmentally friendly and /or socially responsible products. If consumer perceptions are right and socially responsible businesses must introduce more expensive products than socially irresponsible or indifferent firms, these higher-priced products are more likely to be accessible by wealthier consumers. In other words, disadvantaged and extremely price-sensitive consumers may be excluded from sustainable consumption options in the marketplace.

To conclude, and in agreement with existing literature, findings from this study suggest that when consumers acknowledge a company's CSR efforts (CSR Adoption), then consumers will more likely acknowledge any incurring costs from CSR activity (CSR Costs) and might also be keener to consent to any related price markup (CSR Markup). In addition, however, empirical evidence from this study also suggests that just the acknowledgement that a company endures CSR related costs does not necessarily justify in the eyes of consumers any related price markup. Therefore, in practical terms, it is crucial for socially responsible companies to effectively communicate their CSR activities as explicitly as possible.



Companies are advised to pay particular attention when price markups do indeed occur due to increased CSR-driven costs. By ensuring that consumers are well informed about CSR activities (for example by advertising CSR outcomes), markups occurring due to perceived CSR related costs are more likely to be perceived by consumers as fair and justified.

## References

- Ashbridge. (2005). *Catalogue of CSR activities: a broad overview*. An Ashbridge report produced for the Danish Commerce and Companies Agency. Danish Commerce and Companies Agency.
- Balakrishnan, R. Sprinkle, G. B., and Williamson, M. G. (2010). *Contracting benefits of corporate giving: An experimental investigation* (Working Paper). Bloomington, IN: Indiana University.
- Becker-Olsen, K. L., Cudmore, B. A. & Hill, R. P. (2006). The impact of perceived corporate social responsibility on consumer behavior. *Journal of Business Research*, 59(1), 46-53.
- Bhattacharya, A., Good, V., Sardashti, H. & Pelozo, J. (2021). Beyond warm glow: The risk-mitigating effect of corporate social responsibility (CSR). *Journal of Business Ethics*, 171, 317-336.
- Bhattacharya, C.B., & Sen, S. (2004). Doing better at doing good: When, why, and how consumers respond to corporate social initiatives. *California Management Review*, 47(1), 9-24.
- Blowfield, M., & Alan Murray, A. (2008). *Corporate Responsibility*. Oxford Publications.
- Busch, T., & Friede, G. (2018). The robustness of the corporate social and financial performance relation: A second-order meta-analysis. *Corporate Social Responsibility and Environmental Management*, 25(4), 583-608.
- Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business and Society*, 38(3), 268-295.
- Carvalho, S. W., Sen, S., de Oliveira Mota, M., & de Lima, R. C. (2010). Consumer reactions to CSR: A Brazilian perspective. *Journal of Business Ethics*, 91, 291-310.
- Chandler, D., & Werther W.B. (2014), *Strategic Corporate Social Responsibility: Stakeholders, Globalization, and Sustainable Value Creation*. Thousand Oaks, CA: Sage Publications.
- Frynas, J. G., & Yamahaki, C. (2016). Corporate social responsibility: Review and roadmap of theoretical perspectives. *Business Ethics: A European Review*, 25(3), 258-285.
- Habel, J., Schons, L. M., Alavi, S., & Wieseke, J. (2016). Warm glow or extra charge? The ambivalent effect of corporate social responsibility activities on customers' perceived price fairness. *Journal of Marketing*, 80(1), 84-105.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E., (2014). *Multivariate Data Analysis*. 7th ed. Harlow: Pearson Education Limited.
- ISO. (2012). ISO 26000 Guidance on social responsibility.
- Jo, H., & Harjoto, M. A. (2012). The causal effect of corporate governance on corporate social responsibility. *Journal of Business Ethics*, 106, 53-72.
- Kotler, P., & Lee, N. (2005). Best of breed: When it comes to gaining a market edge while supporting a social cause, "corporate social marketing" leads the pack. *Social Marketing Quarterly*, 11(3-4), 91-103.
- Luo, X., & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing*, 70(4), 1-18.
- Maignan, I., & Ferrell, O. C. (2004). Corporate social responsibility and marketing: An integrative framework. *Journal of the Academy of Marketing science*, 32, 3-19.

Matute-Vallejo, J., Bravo, R., & Pina, J. M. (2011). The influence of corporate social responsibility and price fairness on customer behaviour: Evidence from the financial sector. *Corporate Social Responsibility and Environmental Management*, 18(6), 317-331.

Mohr, L.A., & Webb, D. J. (2005). The effects of corporate social responsibility and price on consumer responses. *Journal of Consumer Affairs*, 39(1), 121-147.

Öberseder, M., Schlegelmilch, B. B., & Gruber, V. (2011). “Why don’t consumers care about CSR?”: A qualitative study exploring the role of CSR in consumption decisions. *Journal of Business Ethics*, 104, 449-460.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies*, 24(3), 403-441.

Porter, M. E., & Kramer, M. R. (2006). The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, 84(12), 78-92.

Sprinkle, G., & Maines, L. (2010) The Benefits and Costs of Corporate Social Responsibility. *Business Horizons*, 53, 445-453.

Tully, S. M., & Winer, R. S. (2014). The role of the beneficiary in willingness to pay for socially responsible products: A meta-analysis. *Journal of Retailing*, 90(2), 255-274.