

Customers often believe that suppliers who engage in CSR charge unfair prices

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There is no disputing that CSR engagements such as corporate donations and responsible supply chain practices offer many advantages. To illustrate, consider the fact that Microsoft donated more than \$1 billion (!) to charitable causes in 2015. Beyond the benefits for society, companies such as Microsoft benefit from their CSR engagement themselves: Many studies show that customers feel a “warm glow” if their suppliers engage in CSR – which potentially strengthens customer loyalty and thus keeps suppliers’ cash registers ringing.

However, our new study shows that customers do not blindly perceive benefits from firms’ CSR engagement and that, as a consequence, firms engaging in CSR often do not achieve such beneficial outcomes. This insight results from our analysis of data from more than 4,000 customers to understand more deeply how customers perceive suppliers that engage in CSR. Our findings should raise red flags for CSR and PR managers: *Customers often believe that suppliers who engage in CSR charge unfair prices.*

The reason for this suspicion is that CSR engagement often triggers uncalled-for thought processes. Customers tend to reflect on the costs of CSR engagement and ask themselves how suppliers cover these costs. An obvious answer to this question is that the suppliers factored these costs into their product prices. As a result, customers depreciate these suppliers’ price fairness and become *less* loyal.

To prevent CSR engagement from backfiring in this way, our study provides two recommendations for managers. First, managers need to make sure that their customers believe that a supplier’s CSR engagement results from a genuine concern for society rather than from the supplier’s egoistic objective to gain a competitive advantage. In this case, customers are not only far less likely to engage in any detrimental thought processes, but they are also likely to evaluate a supplier’s price fairness *more positively*. The reason is that, in this case, customers experience the abovementioned “warm glow,” which leads them to perceive their suppliers’ prices through rose-colored glasses.

Admittedly, convincing customers of one’s genuine concern for society may be difficult. This becomes even more

obvious looking at recent opinion polls suggesting that 75% of customers are highly skeptic of corporate communications in general and CSR communication specifically. Therefore, a second strategy to counter customers' detrimental thought processes is to explain where the budget for the CSR engagement stems from. For example, if a supplier communicates that it finances its CSR engagement from the reduction of top management salaries, customers will be less inclined to think that the supplier marked up its prices, and thus they will not devalue the supplier's price fairness. This communication strategy ensures that CSR engagement not only benefits society but also helps to realize its potential for the customer–supplier relationship.



Notes:

- This post is based on the authors' paper [Warm Glow or Extra Charge? The Ambivalent Effect of Corporate Social Responsibility Activities on Customers' Perceived Price Fairness](#), *Journal of Marketing*: January 2016, Vol. 80, No. 1, pp. 84-105.
- This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.
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