

# The Impact of Corporate Behavior on Perceived Product Value

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## ***Abstract***

This research examines how ethical and unethical corporate behavior influence the perceived value of a firm's products, operationalized as the price consumers are willing to pay for that product relative to the competition. We propose that if consumers expect companies to conduct business ethically, then ethical behavior will not be rewarded but unethical behavior will be punished. The results of the first study confirm this expectation. The second study explored ways a firm can improve the perceived value of its products after an unethical act has been committed. Our results indicate that after a firm has committed an unethical act, consumer's perceptions of that company and its products were positively influenced by ethical behavior, corporate philanthropy, and cause-related marketing. However, our analyses revealed that these different strategies varied in their effectiveness. The third study used a choice task, rather than a judgment task, to confirm the finding that corporate behavior does influence perceived product value and is therefore likely to influence market choices. The implications of these findings are discussed.

Although ethics has been the focus of considerable attention by marketing researchers during the last twenty years (e.g., Murphy and Laczniak, 1981; Tybout and Zaltman, 1974), an important issue that has received little attention is whether a company's activities influence the perceived value of its products. Are the prices consumers are willing to pay for products affected by reports of ethical or unethical acts by manufacturers? For example, consider the following situation. You are searching for a new personal computer and have narrowed your choice set down to two, each manufactured by a different company. The two computers are of comparable quality, but the slightly cheaper computer is manufactured by a company cited for dangerous disposal of hazardous chemical waste. Would your purchase decision be affected by this information? What price difference between the two computers would alter your selection? Would your purchase decision differ if the cheaper computer was manufactured by a company noted for its *excellent* disposal of hazardous waste?

Our research examines how ethical and unethical corporate behavior affects the perceived value of a firm's products, operationalized as the prices that consumers are willing to pay for those goods. Prior researchers have explored the issue of consumer boycotts; in some cases, consumers disapprove so strongly of a company's actions that they will not purchase its products. We suggest that many consumers who disapprove of a company's activities continue to purchase that firm's products. Thus, our research focuses on the following

questions: Do customers demand a discount to buy from a firm that they believe acted unethically compared to other firms in the market? Is ethical behavior rewarded by consumers' willingness to pay higher prices? Can *positive* behaviors, such as corporate philanthropy and cause-related marketing, overcome the negative impact of unethical activities?

## 1. Theoretical background

Managerial decision makers must understand the implications of unethical and ethical corporate behavior on brand equity. However, researchers have not reached a consensus regarding the nature of this relationship (Cochrane and Wood, 1984). One reason for this may be the nature of the dependent measures used in the analyses. (For reviews of this research see Aupperle, Carroll, and Hatfield, 1985, and Cochrane and Wood, 1984). Much of this prior work has utilized accounting profit or stock price as the dependent variable. Although unobtrusive, these measures are derivative to actual firm performance and the outputs of a rather subjective reporting process. A number of potential mediators, such as production efficiencies, market scarcities, and stock market anomalies, can mask the relationship between ethical or unethical behavior and these measures of performance. Due to these limitations, we address this issue from a different perspective. We examine how corporate behavior influences the perceived value of a firm's products, operationalized as the price consumers are willing to pay for that product relative to the competition.

Marketing practitioners and academics have long been concerned with ethical issues (Tybout and Zaltman, 1974; Murphy and Laczniak, 1981). Much of this research has dealt with topics such as misuse of marketing research information (Murphy and Laczniak, 1981), organizational factors influencing the extent of unethical activity (Ferrell and Gresham, 1985), and unethical sales force behavior (Robertson and Anderson, 1993). Evidence of widespread concern for understanding and improving ethical behavior among marketing practitioners raises a key question: From a corporate, rather than from a societal perspective, why is it important to encourage ethical behavior?

Cochrane and Wood (1984) point out the need to better understand the relationship between corporate behavior and firm performance. If responsibility is correlated with performance, then "management might be encouraged to pursue such activities with increased vigor or to investigate the causes of this relationship (p. 42)." However, Bhide and Stevenson (1990) point out that honesty is primarily a moral choice; people in business are honest because they want to be and not because it pays. They point out that while there are a few examples that demonstrate the negative consequences of unethical behavior, there are many more examples of how treachery can pay. There is some empirical research that seems to support their argument. Exploratory work that compared the performance of firms classified as having high and low social responsibility by the *Business and Society Review* indicated that stocks of firms categorized as having low corporate responsibility outperformed stocks of high responsibility corporations (Vance, 1975). On the other hand, studies by both Alexander and Buchholz (1978) and Abbott and Monsen (1979) indicated that, although firms who scored high on corporate responsibility did not have greater stock price increases or higher total returns, investing in a responsible firm was not detrimental to the investor. Using an elaborate, forced-choice instrument administered to CEOs, Aupperle, Carroll, and Hatfield (1985) also found no relationship between social responsibility and profitability.

However, recent consumer boycotts demonstrate that some consumers will protest socially irresponsible or unethical behavior by refusing to buy specific products. For example, a consumer boycott protesting the killing of dolphins by commercial fishing boats in search of tuna encouraged both H.J. Heinz (Star-Kist) and Van Camp (Chicken of the Sea) to take action; their tuna is now dolphin safe. Refusing to buy a product sends a strong signal to a company. We propose that there may be another, more subtle consumer response to corporate behavior than a simple refusal to buy. The price consumers are willing to pay for a product or service may signal their disapproval (or approval) of a firm's actions.

To summarize, evidence about the relationship between the ethicality of corporate behavior and firm performance is inconclusive. We suggest that another way to examine the performance implications of corporate behavior is to go directly to the source of the revenue stream—the customer. Much of the prior research in this area is limited by the operationalization of firm performance. Our approach is more direct; we examine how corporate behavior affects the value of the firm's products as evidenced by measures of consumers' willingness-to-pay revealed by both direct judgment and choice tasks.

## 2. Research issues

We employ expectancy disconfirmation theory (Oliver, 1989), a widely accepted theory of consumer satisfaction, to hypothesize about consumers' responses to ethical and unethical behaviors. According to this theory, the expectation set is the evaluative standard about an event or a product against which outcomes are compared to determine satisfaction or dissatisfaction. Westbrook, and Oliver (1991) note that a number of types of expectation sets have been proposed in the literature, such as brand or product category norms (Woodruff, Cadotte, and Jenkins (1983), and an equitable level of performance (Oliver and Swan, 1989). If expectations are realized, positive confirmation occurs, a mildly positive outcome. Only when expectations are exceeded, positive disconfirmation, does a strongly positive satisfaction response occur. On the other hand, if expectations are not met, negative disconfirmation occurs—a highly negative outcome.

Based on a survey by Ferrell and Gresham (1985), we assume that expectations of fairness or ethicality will be the norm in evaluating a firm's actions. Ferrell and Gresham's (1985) results indicate that consumers believe that firms ought to behave ethically, evidence of a reference point that is aspiration or equity based. If consumers hold as an expectation set the belief that firms should behave ethically, then ethical behavior will be viewed only as attaining the norm, perhaps a cause for mild satisfaction but not for a significant change in attitudes or beliefs (Oliver, 1980). On the other hand, unethical behavior will be viewed as a significantly negative disconfirmation against the standard, resulting in strong dissatisfaction and a consequent change in attitudes and behavior. In short, such a negative disconfirmation may be seen as deserving punishment.

The notion of acquisition and transaction utilities can also be used to develop expectations about consumers' responses to ethical and unethical firm behavior. Thaler (1985) develops the notion that the value of a product to a consumer is the sum of its acquisition utility and transaction utility. Acquisition utility is the value equivalent of the usefulness of the item or service less the price paid. Acquisition utility might be assumed to vary only with

the attributes of the product and the price and not with the name of the brand or category attached. Transaction utility is a function of where and how and from whom you buy the bundle of attributes. It is operationalized as an adjustment to the value difference between the fair price and a different price that is based on the transaction situation. Therefore, retailer or manufacturer image, which would include the ethicality of past and present behavior, can be expected to influence this factor, in turn reducing or improving the overall value of the item. If consumers expect firms to behave ethically, then transaction utility would not be affected. On the other hand, unethical behavior by the firm should decrease transaction utility, lower the value of the product bundle, and, consequently, lower the price the consumer is willing to pay for the good.

However, positive behavior may be helpful in overcoming the negative effects of an unethical action. That is, we propose that one way to minimize the effects of unethical behavior is to demonstrate to the public that the unethical act was the exception and not the rule. For example, consumers should respond positively when the firm acts quickly to inform the public about a manufacturing error. Another tactic to counteract the impact of an unethical corporate action is to demonstrate to the public that the firm is concerned about "doing good." Involvement with public service activities should demonstrate to consumers that the company is concerned about people and not just profits. That is, corporate philanthropy should significantly improve the value of the firm's products.

It is less clear how consumers will respond to *profit-motivated* corporate strategies that provide financial support for a worthy cause by linking consumer purchase behavior to corporate donations. Although cause-related marketing does benefit the cause being supported, its goal is to increase the long-term financial performance of the company. We suggest that consumers will respond less favorably to cause-related marketing than the other strategies discussed above because of this fact. Corporate philanthropy or an ethical action that involves costs to a company signal that a firm is concerned with more than just profits; cause-related marketing does not. Yet cause-related marketing *does* benefit a social cause or organization and thus should be associated with some measure of consumer goodwill. In study 1 we use a judgment task to examine how ethical and unethical behavior influence the prices consumers are willing to pay for products. Study 2 explores ways a firm can improve the perceived value of its products after an unethical act has been committed. Study 3 presents evidence demonstrating that ethical and unethical corporate behavior influences consumers' willingness to pay as revealed by a choice task.

### 3. Study 1

#### 3.1. Method

**3.1.1. Subjects.** One hundred thirty-five students enrolled in an introductory marketing course at a large, northeastern university served as subjects. Their participation partially fulfilled a course requirements. The majority of these subjects were employed on a part-time basis outside of school.

**3.1.2. Stimuli and procedure.** Subjects, randomly assigned to one of three conditions, were presented descriptions of three companies. The companies, described as major cereal man-

ufacturers, were identified as Companies A, B, and C. Cereal was chosen because most students have experience as consumers of this product category. The descriptions of Companies A and C were the same for all subjects, but the description of Company B differentiated the three conditions. The appendix contains the descriptions presented to subjects.

In the control conditions, no reference was made regarding the behavior of Company B (the target company). That is, the description of Company B did not differ significantly from the description of either Company A or Company C. In the unethical condition, Company B was described as having lied to consumers by stating that their cereal lowered the risk of heart disease, when, in fact, there was no evidence to support this claim. In the ethical condition, Company B was reported as having acted quickly to refund customers' money after the discovery of a mechanical error that resulted in incompletely filled cereal boxes.

After reading the company descriptions, subjects responded to a full profile conjoint task. Stimuli for this task consisted of nine cereal profiles developed from a fractional factorial design. The nine profiles were identified as Brand A, Brand B, and so forth. Each profile was described by the following three attributes, each having three levels: amount of sugar (low, medium, and high), taste (fair, good, and excellent), and manufacturer (Company A, B, and C). Subjects were informed that the average price for a 20-ounce box of cereal was \$2.50. Then, for each of the nine profiles, subjects indicated how much they were willing to pay for that product. Each company manufactured three different brands of cereal. The task was self-paced and took less than ten minutes to complete.

**3.1.3. Dependent measures.** The dependent measures for this study were the outputs of a conjoint or scaling exercise for each subject. A "dollar metric" type analysis (Huber and James, 1976) was used to determine the actual differences in price with which the sample responded to each company. An ordinary least squares regression analysis was run for each subject using the price specified by the consumer for each profile as the dependent variable with dummy variables to represent the levels of the three attributes present for each profile. The coefficients for the company attribute were then used to form the dependent variables discussed below.

Two dependent measures were used in the data analyses. The coefficients for the company attribute were used to create the first dependent measure. This dependent measure was the average price respondents were willing to pay for Company B's cereal less the average price consumers were willing to pay for cereals produced by its competitors, Companies A and C. The second measure, Green's index of relative importance, tested whether the importance of the attribute "company" was influenced in corporate behavior (Green and Wind, 1975). This index is calculated as the value of the highest coefficient for the attribute minus the lowest coefficient for the attribute. The larger the value, the greater the importance of that attribute in the evaluation.

To test for a social desirability response bias, we ran a similar pilot test on a convenience sample of undergraduate students. Only three of the fifty-one subjects (6 percent) guessed that the purpose of the study was to explore the effects of corporate behavior on the price consumers were willing to pay for products. We conclude that the results described below do not represent demand artifacts. This conclusion is supported by our design in this and the following experiment, in both of which only one condition was presented to a given subject, which made it relatively difficult to ascertain the purpose of the research.

### 3.2. Results and discussion

As a check of our manipulations, we presented descriptions of ten corporate behaviors to a convenience sample of fifteen consumers. The sample of this pilot study was composed of staff personnel and their adult family members at a large eastern college. The subjects rated the ethicality of each act on a 1 (very unethical) to 11 (very ethical) scale. For each act, a *t*-test compared subjects' mean response to the midpoint of the scale. The scale points are of almost equivalent distance from the midpoint; the difference between the two *t*-statistics is due to a significant difference in the standard errors. As expected, "lying to consumers by advertising that a product prevents heart disease" was seen as very unethical ( $M = 1.93$ ,  $t = 3.54$ ,  $p < .01$ ), and "refunding customers for product lost through packaging errors" was seen as very ethical ( $M = 9.87$ ,  $t = 9.21$ ,  $p < .01$ ).

The results are summarized in Table 1. An ANOVA indicates that there was a main effect of condition on the price subjects would be willing to pay for the target company's products relative to the competition ( $F(2, 132) = 10.51$ ,  $p < .0001$ ). There was also a significant effect of condition on the normalized importance weight of the attribute "manufacturer" ( $F(2, 132) = 2.87$ ,  $p < .06$ ).

We first compare the responses of subjects assigned to the ethical and control conditions. As expected, subjects in the ethical condition were not willing to pay more for products manufactured by the target company relative to the prices paid for products manufactured by its competitors than subjects in the control condition ( $M = 5.43$  versus  $M = 4.28$ ,  $p > .05$ ). Similarly, the relative importance weight for the attribute "manufacturer" used to define a product did not differ in the ethical and control conditions ( $M = .20$  versus  $M = .17$ ,  $p > .05$ ).

The next analysis involves the comparison of the unethical and control conditions. The results indicate that subjects in the unethical condition would pay significantly less than subjects in the control condition for products manufactured by the target company relative to the prices paid for its competitor's products ( $M = -25.38$  versus  $M = 5.43$ ,  $p < .0004$ ).

Table 1. Importance of manufacturer and price difference between target company and competitors.

Dependent Variable	Firm Behavior			F-Statistic <sup>a</sup> (prob.)
	Ethical	Control	Unethical	
Importance of manufacturer attribute	0.20 <sup>b</sup>	0.17 <sup>b</sup>	0.25 <sup>c</sup>	10.51 (.0001)
Price difference between target company and competitors	5.43 <sup>b</sup>	4.28 <sup>b</sup>	-25.38 <sup>c</sup>	2.87 (.06)
Number of subjects	59	30	46	

a. The F-statistics in this column are evaluated with 2 and 132 degrees of freedom.

b., c. Means for a descriptive variable with the same superscript are not significantly different at the .05 probability level.

The price subjects would pay for the target company's products relative to the competition also significantly differed between the ethical and unethical conditions ( $M = 4.28$  versus  $M = -25.38$ ,  $p < .0001$ ). For the relative importance variable, there was a statistically significant difference between the importance of the attribute "manufacturer" in the unethical and control conditions ( $M = .25$  versus  $M = .17$ ,  $p < .025$ ). Subjects in the unethical condition indicated the "manufacturer" was a more important attribute than subjects in the control condition.

The results indicate that consumers do not reward ethical corporate behavior with a willingness to pay higher prices but do respond to unethical behavior with a demand for lower prices. Consumers seem to expect ethical behavior from firms, and that behavior is important to them. This may be because the firm is expected to act ethically and thus ethical behavior is simply attaining the status quo and not grounds for reward.

Our findings confirm that consumers signal approval and disapproval of corporate actions through purchase behavior. This suggests that there may be a positive relationship between a firm's public image and the price consumers will spend for that firm's products; the lower the image, the less consumers will spend for products produced by that company. The next experiment examines ways to improve a firm's public image and increase the price consumers are willing to pay for that firm's products. We evaluate the effectiveness of ethical behavior, corporate philanthropy, and cause-related marketing in overcoming the effects of unethical behavior.

## 4. Experiment 2

### 4.1. Overview

Descriptions of three cereal manufacturers were presented to subjects. In all conditions, Company B was described as having allegedly deceived consumers by advertising that their cereals reduced the risk of heart disease when there was no scientific evidence to support their assertion. The actions taken to improve their corporate public image, described below, differentiated the five conditions.

### 4.2. Method

**4.1.1. Subjects.** One hundred seventy-seven students enrolled in an introductory marketing course at a large, private university served as subjects. Their participation partially fulfilled a course requirement. The majority of the subjects were employed on a part-time basis outside of school.

**4.1.2. Stimuli and procedure.** Subjects, randomly assigned to one of five conditions, were presented descriptions of three cereal companies identified as Companies A, B, and C. Whereas the descriptions of Companies A and C were the same for all subjects, the description of Company B differentiated the conditions. Across all conditions, Company B (the target company), was described as having been criticized for deceiving consumers by advertising that their products reduced the risk of heart disease, when there was no empirical evidence to support their claim.

In the *control* condition, the company took no action to counter the unethical behavior. In the *manufacturing correction* condition, an ethical action taken by the company was also described. Specifically, subjects were told that the company acted quickly to inform consumers of a manufacturing error that resulted in the sale of boxes of cereal containing fewer ounces than noted on the label. Consumers who purchased the incompletely filled boxes were offered a full refund. In the two of the three remaining conditions, examples of Company B's corporate philanthropy were used to counter the effects of the deceitful act. In the *volunteer* condition, Company B was identified as actively encouraging, and supporting their employees, to volunteer their time to work with public service organizations and charities such as the American Heart Association and the Boy Scouts of America. In the *sponsorship* condition, Company B was identified as a major sponsor of the Share a Dream program, which grants wishes to chronically and terminally ill children. Finally, in the *cause-related marketing* condition, Company B was identified as contributing a portion of their sales to a charitable organization. That is, for every box of cereal sold, the company donated a small portion to a charitable organization.

After reading the descriptions of the companies, subjects completed the same full-profile conjoint task used in study 1. The subject's task was to indicate how much they would be willing to pay for each of the nine brands of cereal. The task was self-paced and took less than ten minutes to complete.

**4.1.3. Dependent measure.** The dependent measure for this study was the output of the conjoint task. As in study 1, a "dollarmetric" analysis (Huber and James, 1976) was used to determine the average price subjects would pay for Company B's cereals compared to the prices they would pay for the competitors' cereals.

**4.1.4. Results and discussion.** The general model had an overall  $F$ -statistic of 4.56 ( $df = 4, 172$ ),  $p < .001$  level indicating a significant effect of condition on the price consumers were willing to spend for a firm's product. As expected, when a company engaged in unethical corporate behavior (by deceiving customers), consumers were willing to pay less for that firm's products relative to the competition ( $M = -25.38$ ). Also as expected, results in the other conditions indicate that it was possible to minimize the effects of this activity on consumer demand. A planned comparison reveals that the price subjects in the control condition were willing to pay for the target company's products relative to the competition was lower than the price subjects in the other four conditions were willing to pay for the target company's products ( $F(1, 172) = 2.44, p < .055$ , one-tailed).

Examination of the means for each of the conditions, as shown in Table 2, reveals that the different strategies varied in their effectiveness. Compared to the control condition, when subjects were provided with evidence that unethical behavior was not the rule (manufacturing error condition), the difference between the price they would pay for the target company's products and the price they would pay for its competitors' products was smaller ( $M = -25.38$  versus  $M = -5.69, p < .02$ ). Comparisons between the control condition and the volunteer condition ( $M = -25.38$  versus  $M = -.98, p < .003$ ) and between the control condition and the sponsorship condition ( $M = -25.38$  versus  $M = 8.80, p < .0002$ ) reveal a similar pattern of results. In the sponsorship condition, subjects were willing to pay more for the target company's products, relative to the competition. However,



*Table 2.* Price difference between target company and competitors.

Condition	Price Difference Between Target Company and Competitors
Control	-25.38 <sup>a</sup>
Volunteer	-.98 <sup>b</sup>
Sponsorship	8.80 <sup>b</sup>
Cause-related	-15.74 <sup>a</sup>
Manufacturing error	-5.69 <sup>b</sup>

a., b. Means for a descriptive variable with the same superscript are not significantly different at the .05 probability level.

comparison of the control and cause-related marketing condition reveals no difference ( $M = -25.38$  versus  $M = -15.74$ ,  $p > .05$ ). This suggests that cause-related marketing may be a less effective way to minimize the effects of unethical corporate behavior.

### 5. Experiment 3

Experiments 1 and 2 focused on whether the ethicality of firm behavior affects respondents' judgments of what price they would pay for the firm's product, whereas this experiment focuses on whether the ethicality of firm behavior affects respondents' willingness to *choose* the firm's product. Sixty-three undergraduate subjects took part in the experiment, which took approximately ten minutes, during class. Each subject received a packet of ten pages. The first page contained instructions for the experiment and descriptions of three cereal manufacturers; each of the remaining nine pages contained a set of three cereals manufactured by those companies from which the respondent was to choose. Subjects were instructed to read the company description and then choose the cereal they preferred on each page.

Firm ethicality was manipulated in the company descriptions on the first page; there were no differences across the conditions on the remaining pages. The descriptions of two companies, Company A and C, were held constant with no mention of ethical or unethical behavior. Only the description of Company B, the target company, was manipulated. Company B was described as having acted ethically to one-third of the subjects (ethical condition), unethically to one-third of the subjects (unethical condition), and with no mention of ethical or unethical behavior to one-third of the subjects (control condition). The company descriptions are in Appendix A.

Each of the nine choice sets contained three cereals to choose from. The cereals were described in terms of four attributes, each with three levels, (1) taste (fair, good, excellent), (2) sugar (high, moderate, and low), (3) price (\$2.29, \$2.49, and \$2.69), and (4) manufacturer (Company A, B, or C). The nine choice sets were designed using a cyclical design (Bunch, Louviere, and Anderson, 1994), with some attributes swapped (Huber and Zwerina, 1995) for estimation efficiency. Nontechnically a cyclical design means that the first alternative in each choice set comes from a standard fractional factorial design, in this case a  $3^{4-2}$  orthogonal array (Addelman, 1962), and that the remaining two alternatives in each set are built by cycling upward through the attribute levels—that is, by adding one level

to each attribute each time a new alternative is generated. Attribute swapping involves switching the location of two levels of an attribute in every choice set, such as switching fair taste and excellent taste in all nine of our choice sets. This is done to more closely balance the attractiveness of the alternatives in each choice set in order to reduce estimation error for nonzero parameter coefficients. See Huber and Zwerina (1995) for a complete discussion of this approach.

Aggregated binary logit analyses were run with whether an alternative was chosen as a 0,1 dependent variable and the alternative's attribute levels and the subject's experimental condition as independent variables. Preliminary analysis established that company had no significant main effect on choice. The following model was estimated to determine the effects of including two interactions, target company with ethical behavior and target company with unethical behavior (coefficients for the model (with standard errors in parentheses) are included):

$$\begin{aligned}
 \text{Choice} = & \quad 0.73 \text{ good taste} & + 1.56 \text{ excellent taste} & + 0.10 \text{ medium price} \\
 & (0.10) & (0.10) & (0.09) \\
 - & 0.70 \text{ high price} & + 0.07 \text{ moderate sugar} & - 0.80 \text{ high sugar} \\
 & (0.09) & (0.09) & (0.09) \\
 + & 0.05 \text{ ethical conduct} & + 0.05 \text{ unethical conduct} & + 0.00 \text{ (target company * ethical)} \\
 & (0.10) & (0.13) & (0.15) \\
 - & 0.27 \text{ (target company * unethical)} \\
 & (0.14)
 \end{aligned}$$

The model is statistically significant ( $\text{Chi}^2_{34} = 80.80, p < .0001$ ) and confirms our hypotheses. Respondents were *not* more likely to choose the target company's product if the company had been ethical (coefficient = 0.00, NS), but *were* significantly less likely to choose the target company's product if the company had been unethical (coefficient =  $-0.27, p < .05$ ).

## 6. Conclusion

To summarize, the results confirm our hypotheses regarding the differential effects of expectations or reference points with respect to ethical behavior. Study 1 suggests that consumers do not reward ethical corporate behavior with a willingness to pay higher prices yet respond to unethical behavior with a demand for lower prices. Study 2 suggests that it is possible to overcome the negative consequences of unethical behavior. Consumers responded favorably to positive corporate actions. Study 3 used a choice task to demonstrate that measures of consumers' willingness to pay observed in studies 1 and 2 are likely to translate to actual market choices.

Interestingly, subjects in studies 1 and 2 provided a nonzero price for profiles containing the target company while subjects in study 3 did, in some cases, choose the option manufactured by the unethical firm. This implies that unethical corporate behavior is not likely to go unnoticed, or unpunished, even if it does not result in a spontaneous consumer boycott of that firm's products. Rather the effect of unethical corporate behavior appears to be to

diminish the firm's capability to compete effectively in the marketplace by decreasing the price consumers are willing to pay for the product. This issue, however, is a question for future research.

Our findings are interesting from a number of theoretical perspectives. First, they support the notion that consumers compare corporate behavior to their expectations, rather than to an absolute standard of ethical versus unethical behavior. Differences in the nature of these expectations are likely to have a significant impact on consumers' response to ethical and unethical acts. Second, our findings suggest that unethical acts may limit a firm's capability to compete effectively in the marketplace; consumers' perceptions of the value of a product are influenced by unethical corporate actions. Further research, particularly in a field setting, should examine this finding. However, if it is confirmed, it suggests that firms should be considerably more aware of the consequences of their behavior in the marketplace.

## **Appendix. Company descriptions presented to subjects in Study 1**

### *Target company*

**Unethical condition.** Company B is also one of the major producers of breakfast cereals. They offer a wide variety of cereals and have a major share of the shelf space in most supermarkets. Their corporate headquarters is located in Minnesota, and they employ a large number of people. A significant proportion of their total sales is spent on product improvement. This company was recently criticized for deceiving consumers by advertising that their products reduced the risk of heart disease, when in fact, there was no evidence to suggest that this was the case.

**Ethical condition.** Company B is also one of the major producers of breakfast cereals. They offer a wide variety of cereals and have a major share of the shelf space in most supermarkets. Their corporate headquarters is located in Minnesota, and they employ a large number of people. A significant proportion of their total sales is spent on product improvement. Recently this company discovered that as a result of a mechanical error, each box contained several less ounces of cereal than was stated on the front of the box. This company acted quickly to tell the public about the problem and offered refunds to all customers who had purchased the incompletely filled boxes.

**Control condition.** Company B is also one of the major producers of breakfast cereals. They offer a wide variety of cereals and have a major share of the shelf space in most supermarkets. Their corporate headquarters is located in Minnesota, and they employ a large number of people. A significant proportion of their total sales is spent on product improvement.

### *Unmanipulated competitors*

**Company A.** Company A is one of the major producers of breakfast cereals. They offer a wide assortment of cereal, targeted to both children and adults. Their corporate headquarters

is located in Michigan and are one of the major employers in their region. They are actively involved in product development and actively seek new marketing opportunities.

**Company C.** Company C is one of the “big three” producers of breakfast cereals. Offering products to all segments of the market, they are well known for both their presweetened children’s cereals and their all-natural cereals. Their corporate headquarters is located in the corn belt of Illinois. Continually interested in marketing opportunities, this company is very concerned with product development.

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