Evaluating the Valuation of Ethical Features

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Introduction

The purpose of this paper is to provide a critical account of research undertaken by the authors on the topic of “ethical consumerism”. Ethical consumerism refers to the ethical components of products (e.g., environmental practices, labour practices, animal testing, etc.) and how a growing segment of consumers pay attention to such components leading to a cost-effective basis for companies to meet their demands. The ethical practices of companies may be somewhat thought of as motivated by the ethical objectives one would wish larger elements of society to adopt. Instead, one should recognise that motivations to act ethically might also be driven by economics: companies may be able to draw profit from consumers by supplying those who are willing to pay for goods or services to be produced in ways that meet their demands for ethical practices. This view speaks to the philosophy taught in most undergraduate marketing subjects: companies succeed by producing goods that meet the needs of consumers better than competitors do (Lawfer 2004). So, ethical consumerism is not necessarily a concept that is in opposition to capitalism, but rather embraceable as a source of competitive advantage. The question, of course, is just how great an advantage does it offer?

The authors have, over a five year period, engaged in their research endeavour on ethical consumerism and the potential value that it offers companies, with the first real impact on the academic landscape beginning with publication in Journal of Business Ethics (Auger et al. 2003). Various papers have followed (Auger and Devinney 2007; Auger et al. 2007a; Auger et al. 2007b), culminating with publication in the International Journal of Research in Marketing (2008). The research endeavours have led to the following conclusion: that the value that some consumers place on ethical product features is significant, even when these consumers consider product features that would otherwise affect their enjoyment of the product. The outcome of the review presented in this paper is to account for the various motivations that guided the authors’ substantive thinking and research approach. By offering a critical view discussing limitations, future research opportunities are identified.

Issues of Measuring Importance of Ethical Features and Incentive Compatibility

A common approach used to investigate issues such as ethical consumerism is by asking questions using a simple scale of importance. For example, one may ask “how important is it that a good that you buy is produced using best-ethical practices such as not using child labour?”, asking respondents to rate importance on a scale of “not very unimportant” to “very important”. By using such scales, Uusitalo and Oksanen (2004) found that almost 70% of respondents, made up of Finnish consumers, believed that the business ethics of a company had “some influence” on their purchasing decisions. Mason (2000) found that a third of UK consumers were seriously concerned with social issues.

One issue with such scales relates to issues of ‘incentive compatibility’, meaning that individuals have no incentive to reveal realistic behaviour. They may perceive that the right
thing to do is please the researcher, agreeing that ethical practices are important. They may not wish to admit indifference and/or even overstate its importance.

One may question whether these scales really capture the relative importance of the issue or motivator of behaviour (e.g., an ethical feature) when participants are not asking to consider their response relative to other issues or motivators (e.g., price). If we ask consumers how important each factor of a product is one at a time, they have every incentive to indicate that everything matters (Carson et al. 2000). In the case of a shoe, most consumers want “durability”, “minimal weight” and “a reasonable price”. Most consumers, if they didn’t have to trade-off or “give up” these functional factors, would state that they also would like a shoe that was produced using “at least minimum wage paid to workers”, “not produced in sweatshops using child employees”, or “produced with working conditions that are not dangerous for employees”. Knowing that “most consumers” (e.g., a high percentage) want goods that are not produced in sweat shops is irrelevant if one learnt this by only asking about their attitudes to sweat shops. Even asking about multiple factors one at a time is questionable with no knowledge about those respondents who may have looked at the set of scale items in isolation versus those who viewed items as a collective and reflected their implicit trade-offs.

In reality, most consumers make trade-offs, giving up some things to obtain others (Fishbein and Azjen 1975). Consumers may choose to buy soaps that have moisturizing ingredients and be scented, but may consider these “functional” features against “social features” such as whether the manufacturer used animal testing or animal by-products. While everything matters to consumers, in reality they often decide how much a feature matters relative to another. In the case of ethical consumerism, it is valuable to know just how important an ethical product feature is relative to functional features.

There is little insight for practitioners or academics to conclude that consumers value “everything”. For managers, such conclusions will not help in understanding where to focus their organisations’ strategic efforts. Indeed, the need for trade-offs is driven by companies themselves; maximisation (e.g., the ideal shoe or soap) is desired by consumers, but it is not possible for companies to cost-effectively offer these goods or services (Sheth et al. 1991). Organisations must make trade-offs like consumers, choosing to focus on one factor over another. Likewise, academics would like to inform the stakeholders in their research that what they are investigating is an important issue, not just in absolute terms.

**Ethical Features: A Question of Attitude or Behaviour?**

One issue when conducting research into the value of ethical features is that one may base conclusions on attitudes, rather than behaviours. This is concerning as some researchers have proposed the existence of gap between attitudes and behaviour (Boulstridge and Carrigan 2000; Carrigan and Attala 2001; Simon 1995; Ulrich and Sarasin 1995). That is, while consumers may clearly state that they strongly support ethical practices of companies this may not translate into changes in their purchase behaviour such that they buy products from companies that undertake such practices. In other words, when it “comes to the crunch” consumers can opt-out and choose something that does not necessarily reflect their attitude.

This is problematic when one attempts to encourage ethical practices by arguing ethical consumerism is on the rise, but not reflected in higher demand for ethically produced
products. Without consumers voting with their wallets and simply stating they “would like to” is a setback in asking companies to redirect their strategic efforts.

The Value of Choice Experiments and Discrete Choice Modelling (DCM)

Much of the research conducted by the present authors has centred on methods relating to choice experiments and discrete choice models (DCMs). Stated choice experiments involve presenting a set of hypothetical products to respondents. Respondents indicate the product they would purchase if these were the only products available. Extending this, researchers may ask respondents whether they would purchase these hypothetical offers over their currently used brand or product. The attraction to this experimental approach is that it represents what consumers do everyday, namely, make choices; so the method encompasses design philosophies aimed at increasing external validity (Brunswik 1955). Experiments continue with different choice sets, so that one can observe the systematic relationship (using multivariate analysis) between choices (dependent variable) and changes in product offerings (set of independent variables).

Such experiments were popularised by experiments investigating consumer decision-making using conjoint analysis, which gained prominence in marketing during the 1980s, helped by publications such as those of Louviere and colleagues (Louviere 1988; Louviere and Woodworth 1983). These works demonstrate the adaptation of such methods from questions about transportation and geography to questions related to marketing. Conjoint analysis differs by asking respondents to rate or rank each offer. The role of conjoint analysis, however, has been superseded by the development of mainstream software (e.g., LIMDEP; SAS; SPSS) both in terms of estimating models with a discrete dependent variable (i.e., choice) and parsimony in producing experimental designs.

The use of discrete choice experiments and models are able to evaluate the question of whether ethical features matter to consumers in terms of value relative to functional features. The authors have adopted this methodology to demonstrate that consumers value ethical features in various product categories including shoes, soaps, batteries and laundry detergents (Auger et al. 2003; Auger et al. 2007b; Auger et al. 2008).

Overcoming Combinatorial Issues and the Value of Experimental Design

The question of how to evaluate changes in choice and systematically relating this to products (e.g., price; use of child labour) has been aided by advances in experimental design. A simple case where one may examine soaps with nine functional features (e.g., shape; natural ingredients; pore clogging; price etc.) and three ethical features (e.g., biodegradable; animal testing; use of animal by-products) each with two feature levels (e.g., square or round shaped bar) would result in $2^{12}=4096$ possible product combinations. Of course, asking a respondent to evaluate all 4096 products could be tedious. To overcome this, the number of choice sets can be reduced; however, the choice of offerings should not be random as this cannot ensure that what one observes relating to changes in one factor (e.g., shape of bar) is unrelated to changes in another factor (e.g., biodegradable).

One solution is to use fractional factorial designs to design choice experiments where one knows that changes in one factor are unrelated to another (i.e., orthogonal). To do so, one may have to assume that higher order interactions may be negligible, but research has shown that
main effects and two way interactions do explain a great deal of variation in most decision making (Dawes and Corrigan 1974; Louvierie et al. 2000). One should be aware, however, about recent research suggesting that even standard software packages that automatically produce experimental designs are not necessarily optimal (Burgess and Street 2003).

Examining Individual and Cultural Differences

The value in choice models in investigations of ethical consumerism is to quantify the relationship between changes in the product on ethical features and relate this to changes in consumer choices. In using aggregate models, however, one cannot be sure that a level of aggregation bias has not occurred (Hutchinson et al. 2000). For example, if all females preferred products without animal testing and all males were indifferent, we would underestimate the effects of animal testing on choices if there is equal representation of males and females in the sample. One method to account for such forms of preference heterogeneity is to extend the choice model and include interactions between observable covariate measures (e.g., demographics; psychographics) and the product features (Gupta and Chintagunta 1994). Indeed, Auger et al. (2003) demonstrated that these individual differences in valuation of ethical product features can relate to demographics and these effects are significant.

Such individual differences, however, may not even relate to a known and measurable consumer characteristics. Researchers are using advances in choice modelling and software to extend investigations into unobservable forms of heterogeneity. These models include Hierarchical Bayes (HB) or finite mixture models (Allenby and Rossi 1999; Train 2003) and present avenues for future research into ethical consumerism.

Beyond differences in preferences, other individual differences may exist and relate to the inconsistency or randomness observed in consumer choices. For example, based on product descriptions, consumers may be uncertain about the extent to which a company uses animal testing, though in general preferences suggest they favour products produced without such practices: these differences in uncertainty can make conclusions about preferences difficult. This is because unaccounted differences in variability will lead to bias conclusions about mean parameter estimates relating the impact of changes in one factor to choices (Louvierie 2001). To overcome this, several forms of choice models now account for unobservable heterogeneity in relation to the random component of valuations (i.e., the error term) (Burke and Reitzig 2007; Dellaert et al. 1999; DeShazo and Ferro 2002; Islam et al. 2007; Swait and Adamowicz 2001). To date, however, these models have not been used to capture individual differences in choice variability in the context of ethical consumerism.

One may ask whether consumers in one country place the same dislike for unethical practices as consumers in another. Most would suggest that there should be some differences, but the empirical results suggest they are not extensive as one may expect (Auger et al. 2007b). Just as consumers, regardless of cultural background or geographic location, prefer lower prices, most consumer preferences should reflect basic human values and favour products produced in an ethical manner. Of course, there are exceptions including unpublished cases of qualitative research conducted by the authors that points to some cultures believing some practices (e.g., child labour) are not necessarily unethical when one considers the outcomes without such practices occurring (e.g., child poverty; child prostitution).
What Else Does the Future of Research into Ethical Consumerism Hold?

Beyond adoption of techniques that better reflect the relative trade-offs that consumers face when deciding whether ethical practices of companies really matter, there are still many future research opportunities relating to the topic of ethical consumerism.

For researchers, stated preference (SP) choice experiments offer systematic control over the choices on offer to consumers; this addresses issues of internal validity. The major disadvantage relates to external validity and the questionable realism of evaluating hypothetical offerings. The issue of whether differences in revealed preferences (RP) and stated preferences exist has been examined, and once one accounts for differences in variability (RP has greater noise), the empirical differences are often insignificant (Adamowicz et al. 1997; Earnhart 2002). Nonetheless, these comparisons have not been conducted in the area of ethical consumerism.

In general, companies provide information about their ethical practices, but only if they are doing so. While researchers have suggested value in helping consumers learn about products (Wernerfelt 1996), there are no incentives for companies to do so if it leads to poor responses. While Auger et al. (2003) suggest how consumers change preferences for ethical features by the availability of general (positive; negative; neutral) information (e.g., newspaper article), the research to date has not reflected the asymmetry in communication strategies of the companies themselves. One may able to be consider these questions using prior research examining what consumers do when they have missing information (Bradlow et al. 2004; Johnson and Levin 1985; Kivetz and Simonson 2000).

Ethical consumerism is a dynamic phenomenon and not static as the research to date may reflect. In turn, researchers may better account for ethical consumerism by considering it in terms of diffusion. For example, there is likely to be issues of network externalities and critical mass, where consumers have greater incentives to delay uptake of ethical consumption practices until the premium that early adopters are prepared to pay for ethical production dissipate (Choi 1997; Grudin 1994; Tuebal et al. 1991; Witt 1997).

If one is able to convince companies that ethical consumerism is a movement in consumer behaviour that can derive profits, one is potentially able to entice a change in company practices for the better of society. Indeed, this argument almost verges on the tautological: it is a change for the better in society requested by the members of society. The key argument against a tautological conclusion is paramount, which recognises that society must work within the barriers created by capitalistic cultures, namely companies determine which and how to supply goods and services. Without it, those who want change will always have to pay the price, both financially (premium prices for cost-ineffective practices) and by the lack of change that occurs with any action of a minority. The outcome of research into ethical consumerism (i.e., knowledge) is potentially a step closer to overcoming these barriers. Nonetheless, dissemination of this knowledge (i.e., education) needs to be addressed too and the current authors encourage its readers to share this newfound knowledge with colleagues, both academic and practitioners alike.
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