UNIVERSIDADE CATÓLICA PORTUGUESA

The relationship between profit and prosocial behavior

A focus on Nudging

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by

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Abstract

The thesis firstly collects behavioral economics literature to support the nudging literature review. Based on the first itineration of the thesis and the challenge proposed by Deborah Small and Cynthia Cryder the purpose of the thesis is to review and relate literature on the topics of consumers' inferences relating to firms that behave in a prosocial manner.

Due to the lack of a concrete nudging review which builds its roots on behavioral economics, we needed a strong foundation to begin developing the topic of nudging as a response to profit-seeking firms who look to behave prosocially and earn a positive response from consumers. In addition, there is absence of research linking literature on consumer inference and reaction with for-profit firms seeking to behave prosocially.

Through analyzing all major authors and fathers of both nudging, behavioral economics, and consumer response towards for-profit firms that positively impact society, the thesis compiles relevant information on the perspective of consumers. While focusing on the reactance individuals might and indeed have of firms, nudging is explored as a solution that not only helps consumer's decision-making but also promotes positive social impact and brings results for firms.

The research leads to believe that nudging is indeed a tool that fits all these requirements, as it helps individuals, firms, and societies. The following text looks to showcase how nudging, while being heavily developed as a nearly selfless tool, may also be utilized for the same good while combining prosocial behavior and profit seeking goals.

Keywords: prosocial behavior, nudging, behavioral economics, profit-seeking

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Introduction

Following 2017's Nobel prize in Economics Richard Thaler with his contributions on Behavioral Economics related to Nudging, alongside the classes I attended on the subject at my university, made me interested in the capabilities and potential that this subject brought into the *status quo* of economics. Both economics and psychology have always been my two most favorite studied subjects. And now, being given the opportunity to further develop a topic that combines the two sciences, was a natural choice for me. The breakthrough of Behavioral Economics is due to its presuppositions differing from classic economics, which is grounded on observed economic behavior and supported by the psychological context of choice-architecture. Without analyzing decisions through the rigid laws of rationality, observed behavior is the core of this science, and it is explained through a combination of psychologic and economic impressions.

My thesis started with a proposal from my supervisor to present possible behavioral inducing techniques with prosocial outcome. The technique we chose was taught to me by my supervisor and entails behavioral theory. That technique is called nudging. It gained most awareness with Thaler and Sunstein's work on the subject. It represents any prosocial intervention that respects the concept of libertarian paternalism, as long as it encourages the better path for the consumer, through correcting their decision-making flaws. There are many possible nudge techniques, such as heuristics. While knowing what is best for decision-makers, a nudge seeks to point individuals in the direction that best suits their needs, while not restraining choice.

But to develop on what makes a nudge, and what applications it has seen, we must understand its basis, and that is behavioral economics. We will start by

going through authors and theory that will create the pillars to understand what nudging is based on. The only way to consolidate the needed support on behavioral economic science is through understanding how humans have their mental processes limited, and thus need orientation.

However, the current stance of nudges focuses on the impact and decision-making influence they have on individual's wellbeing. While it is the focus of a nudge itself, we will look into how consumers react to firms that behave with positive social impact. To do so, understanding that consumers form beliefs and expectations related to social responsibility is a core part of the thesis. We will also include a topic where social impact and profit-seeking might be possible together, as they appear to be two contradictory concepts in historical literature.

By first understanding behavioral economics and the tool that is nudging through the existing literature, we will then investigate cases where firms behave prosocially through nudges. While we start off with examples of firm's impact on several social areas of consumers life, a deep insight into their beliefs, expectations, and reactions will be necessary. In the end, we will close out the chapter with an interesting and defying reality of whether firms should behave prosocially and achieve profit based on that investment, all in the perspective of consumers.

The data sources used were initially indexed from researching academic materials based on key terms such as nudge applications in private firms, behavioral influencers, impact of prosocial investments, nudging for good, and consumer's reaction/expectation on prosocial firms. These terms were applied mainly applied in Google, while Católica Porto Business School's online business search interface library provided a few of the older articles, and Google Scholar was scarcely used. Topics covered in the Literature Review had been collected during the specialized course in behavioral influencers in college and started from the most prominent authors of the field, and development

went through sources used by those authors. Research done in the most recent years was selected considering the relevance of the methodology used by authors and their knowledge of previous literature. Data utilized here was all secondary as an experiment was not possible due to time and financial restraints. Overall the majority of this data is quantitative as we conclude based on statistical outcomes of previously observed behavior compared to traditional techniques. While in small quantities, some pieces of information will be qualitative as the authors discussed their experiments on both statistical evidence, but also on consumer's opinions through interviews and focus groups.

Chapter 1
Behavioral Economics

1. An Introduction on Behavioral Economics

One of the requirements to understand behavioral economics is that it stands against several classic concepts such as perfect rationality, in the sense that people could act such as machines capable of perfect mathematically supported decisions. Behavioral economics respects bounded rationality and states that people are somewhat irrational (Dan Ariely, 2009). This notion acknowledges that the overload of information alongside with cognitive constraints lead to imperfect decision making. However, not being capable of following the lines of neoclassic rationality does not make people ignorant, it makes them human. Through observed behavior, rationality is explained as a reality influenced by the individual's limitations. In behavioral economics, rationality isn't a law of decision-making, but it is the reality observed when individuals act upon information through their cognitive skills in hopes to maximize wellbeing. Just as Ariely states in his YouTube presentation, "What Is Behavioral Economics", the starting point of both theories is different. "Rather than assuming people are rational, and then taking the implications of that, we have [in Behavioral Economics] no prior belief. Let's just see how people behave (…) and then as a consequence let's make the implications". Only then, since people often don't behave rationally, the implications are different from those of standard economics (Dan Ariely, 2011).

Standard economics assumes selfish behavior through a self-interested perspective as the means to rational behavior, but behavioral economics describes human behavior as produced based on social interaction, and with

social awareness of the other's needs. As Baddeley (2017) states, humans have social preferences, such as disliking inequality. People also learn from that social interaction, they are not fully informed *ex-ante* a decision is made, but the decision differs if new pieces of information are found. If we see two local pubs, one with a long queue and the other with no queue, we will believe those people have some type of information that we do not, thus making us join the populated queue. Even if previous information leads us to believe the other bar was preferred, our preference has changed based on the evidence we extrapolate (Baddeley, 2017).

Another way behavioral economics adds value to the existing rational choice theory, comes from intrinsic and extrinsic motivations. Money is not the only intrinsic motivation, nor the only extrinsic one. Other motivations such as punishment avoidance and personal sake are of importance as well. Intrinsic criteria such as pride and the feeling of success show us how much more complex measuring utility it is. This is due to the existence of several other motivations, but also due to the tough time it is to calculate pride in a mathematical equation.

Sometimes decisions aren't pondered at all, they can be impulsive, quick, not deliberated enough, and eventually badly prepared. We are limited by multiple choices, information excess, time constraints, among other barriers that prevent us from executing rational choices as neoclassic economics describes. The fact that individuals must use quick thinking in a crowded environment, will bring into account heuristics to simplify cognitive processes. To cope with so many barriers, these heuristics will shorten the time and complexity it takes to decide, whether enhancing the decision, or undermining it.

Standard economics does not identify individuals' lack of ability to assessing risky behavior, as Kahneman and Tversky have proven, where various irregularities were shown to exist in equal scenarios among several participants

(Kahneman, 2011). Alongside the fact that individual differences are neglected in classic economics, such as personality, behavioral economics follows an increased microeconomic perspective. In respect to the interdependence of individuals, their personality traits, the learning processes that root from being social animals, this whole dimension has an aggregation problem: individuals cannot be added up to the whole population, such as standard economic theories have done (Baddeley, 2017).

2. Prosocial importance and policy makers

In 2014's OECD Regulatory Policy and Behavioral Economics authored by Pete Lunn, several examples of successful nudging techniques, a branch of behavioral economics, were tested through randomized controlled trials, and later applied in the UK. The UK's Behavioral Insights Team called by Her Majesty's Courts and Tribunal Service, developed a nudge that helped resolve fine collection delays. The issue regarded payments not being executed during their penalty-free period. The technique carried out in the RCT was based on a suggestion made by Garner in 2005. By starting a communications program to connect with the users to incentive them to pay on time, customized text messages were proven to be most effective with fine defaulters, comparing to other forms of communication. Bringing a reduced cost to policy makers, a simple personalized message increased early payment and reduced further punishment (Lunn, 2014).

Richard Thaler and Cass Sunstein in "Nudge", wrote how policy makers can apply nudges to change behavior. One of the main examples, that derives of a wide capability, is the option of defaults (R Thaler & Sunstein, 2008). When nothing is specified, the pre-set option will take effect. These are most effective

when there is uncertainty, or inertia during the decision-making process (Cheema & Soman, 2008). One example is the increase in donation rates when individuals are faced with an opt-out decision rather than an opt-in choice (Johnson & Goldstein, 2003).

3. Behavioral Economics application

In Misbehaving, Richard Thaler starts with an iteration he tested while teaching microeconomics. After an exam given to the class' participants, where the average achieved 72 points out of 100, students were very upset at the grade. Usually, grades were given in an alphabetic correlation to the numbers, such as B+, or B. The grade of 72 matched the average B/B+, but students clearly didn't feel it was the same. The following exam now had a maximum mark of 137 for two reasons. One, the previous average of 72 points would be written on the exam as a numeric value of 96. The second reason is that dividing their actual mark over 137 is an arduous task, so converting to a percentage would seem an uninteresting task. The result showed how students felt better about their new results, even though the average was 70%, lower than the previous 72%. As Thaler states, "to an economist, no one should be happier about a score of 96 out of 137 (70%) than 72 out of 100, but my students were. And by realizing this, I was able to set the kind of exam I wanted but still keep the students from grumbling" (R H Thaler, 2015).

4. Cognitive biases

Whenever choices are made, biases are in effect. In many cases, we are unaware of being under influence. It is based on our cognitive incapability to process all the existent information that we generate decision errors. "The word cognition stands for all the reasoning processes in the human mind, regardless of whether they are fully conscious or not" (Selten, 1998). Cognitive biases are the resulting factor of "unconscious errors of reasoning that distort our judgement of the world"(Kahneman, 2011).

In "The Paradox of Choice", Barry Schwartz (2004) shows how a variable such as amount of possible choices, can have a negative outcome for the decision. Stating that "as the number of options increases, the psychological stakes rise accordingly", Schwartz identifies psychological complications that origin from increased product availability (Schwartz, 2004).

On another example, Sheena Iyengar (1995) conducted a study with "Wilkin & Sons" jam where she displayed separately: two selections of product were used, one selection consisting of 24 jams, and another consisting of 6 jams, both available for consumers to purchase. While only 40% of participants preferred the 6 jams section, 30% of these participants showed interest in buying some. While in the 60% group that was attracted by the wide array of jams, only 3% showed intent of purchase (Iyengar & Lepper, 2000).

Biases are more complex in terms of awareness than it is perceived. We might have freedom to choose, but our choice is heavily affected by factors prior, or even during purchase. An interesting technique described by Schwartz in the same book, as "missed opportunities", is also a common economic concept of opportunity cost. The author adds to this concept of measuring hypothetical trade-offs as economic theory states, that consumers gauge choices based on *missed opportunities* instead of the opportunity's potential. This is a

case where during the decision-making we overcomplicate variables based on the wide array of choices available. Prior to purchase, efforts such as adverts led by firms, link products to the "place" of the marketing mix, looking to reduce this level of bias and assert early preference. They look to *place* their products characteristics on top of our mind, as to make choice easier for us in preferring their product. However, it is not as simple as a dichotomic to prefer or not prefer the product that is shown in the ad.

Our preferences are also under impact of other decision variables. While consumption may look to grant us an emotion after consumption, emotions themselves surface at times of deliberation, prior to consumption even. Neuroscientists Antoine Bechara, Hanna Damasio, and Antonio Damasio hypothesize that besides outcomes and their probabilities of occurrence, emotional quality is also present in the decision-making process. The damage that results from this quality of emotions prior to the decision, such as the emotions that arise during the time we take processing an ad, "leads to pathological impairments in the decision-making process which seriously compromise the efficiency of everyday-life decisions" (Bechara, Damasio, & Damasio, 2000). We are now able to understand that our locus of control might need internal strength adaptation.

This psychology concept is also used in consumer research. A study done by Narasimhan Srinivasan and Surinder Tikoo (1992), both from the University of Connecticut, examined the locus of control on external search for information on 1401 new car buyers. They concluded that internal locus engages "in a greater degree of information search compared to externals" (Srinivasan & Tikoo, 1992).

5. Bounded Rationality

The reason our decision-making is constantly under pressure can begin to be explained by our bounded rationality. Herbert A. Simon coined the term that does not follow a rigid definition, but is "a problem that needs to be explored" (Gigerenzer, 2000). "Bounded rationality is understood as rationality exhibited by actual human economic behavior" (Selten, 1998).The origin of this concept does not state that individuals are irrational. Instead, since optimization of choice is an immense task, no enough individual effort can deal with countless choices. This concept is a psychological pillar of behavioral economics (Abbott et al., 2016).

However, optimization isn't always at play, as consumers look for "satisficing" instead of maximizing. This term merges satisfaction and sufficiency, as individuals reach a decision considering their costs and constraints, and not a complete optimization of choice. Satisficing individuals tend to choose options that will meet basic criteria for choice (Simon, 1956).

On another perspective, neoclassic economics states that non-maximization actions are irrational and have no space for good practice. Not only neoclassic economics is contradicting with Behavioral Economics. By linking Simon's suffice theory with the current bounded rationality concept, we find similar conflict since sufficing theory if based on solely two levels, satisfaction and sufficiency, and that only these two are required to explain decisions that are not in the maximization spectrum. However, other elements such as cognitive bias also push individuals away from optimization.

Still on this line of thought, as stated in Gigerenzer's book, an individual who is "guided by aspiration adaptation rather than utility maximization may be perfectly rational". Using his example of chess, a game where the rules and goals are easily understood, explicit, and not subject to change, several

conditions emerge to cripple the players decisions, proven by a lack of perfect optimal strategy. Reasons such as "multiple competing goals", "incommensurable goals", or that alternatives are not known and require lengthy research throughout the process, highlight how optimization is impossible. This is due to the size and multitude of variables such as number and impact of moving set pieces which negates complete control and predictability, but also due to the non-finite choice set available during the game (Gigerenzer, 2000).

Selten explains how incommensurable goals cannot be weighted by optimization models, but bounded rationality can. His example is an archer who is trying to hit the trunk of the tree with an arrow shot from his bow. If the arrow missed to the left-side of the trunk, the archer either aims it more to the right, or tries the same shot expecting external variables to change, such as wind. In reality, there are more than two variables at play besides where the archer aims to and the wind.

Factors such as focus, the height of the archer, gravity itself, and many others, negate the possibility for the archer to make a choice based on all available pieces of information. Therefore, choice is made based on the bounded rationality of the archer. He is only aware and can only control a limited number of variables, and as such will act upon then. Since his goal is to hit the trunk of the tree with an arrow, maximization is met by reaching this goal.

However, there is a lack of perfect optimal strategy, as variables are too many. If he were to look for a perfect optimal strategy before firing the arrow, he would have never done it, because he would never control all variables needed to fire the arrow perfectly, thus never reaching maximization of choice, which would be hitting the trunk. Based on a limited amount of them, the archer is now capable of firing the arrow, which he might hit or not, but based

on his learning system, he can now hit the tree (Selten, 1998). This example aids understanding how bounded rationality may bring an optimal outcome.

In this sense where an overload of information exists but little is processed, decision-makers can be influenced by many factors, such as biases. As Haselton, Nettle, and Andrews (2005) state, in the cases where biases are experienced, inferences and beliefs adopted have inadequate logical basis for their existence (Haselton, Nettle, & Andrews, 2015). To cope with said limitations from our bounded rationality, decision-makers use a crutch. This support comes from the use of heuristics. The mere existence of common sense is a valuable tool to reach a goal, and a heuristic. In this case, it is an ability to make intelligent decisions based on daily occurrences. Through a judgment based on the "imagination of hypothetical sense presentation"(Schutz, 1972), individuals share a common value judgement over situations that lead them to better decisions.

6. Duality of Systems

As Sloman (1996) describes, earlier developments of distinctive models of thought process dated back to Aristoteles. The challenge behind a duality of systems comes from the difficulty of defining two systems "in a precise, empirically consequential way", and describing how and when these two work together (Sloman, 1996). James, earlier in the 20th century, described two computational methods as being of association, and the other one being symbolic.

The first system is based on trains of imagery which "often reveal intermediating links of perfect naturalness and propriety", where these show structure between correlations of images (James, 1950). The second one is based

on a rule-system, where the fundaments of this computational mechanic such as the productivity of this system rely, and through which we can encode an unrestricted number of suggestions.

Considering more recent development, characteristics such as imagery association are kept. Tversky and Kahneman acknowledge the existence of two parts of the thought process, calling them System 1 and System 2. System 1 relates to instinctive, immediate, low to none effort, automatic thought process. It is executed when we make simple math that we have memorized from our earlier days of school, such as 2+2. System 2 can utilize the input from System 1, and is a controllable, demanding, conscious, reliable, not error prone like the other system.

This serves as basis for the development of this thesis, as it aids understanding which system will be affected and activated through the decision-making. A cognitive bias will affect System 1's judgement, which will then feed System 2 with biased input (Kahneman & Tversky, 2011).

Since we can train our System 2 in order to react to the information given by System 1, mechanisms such as heuristics exist to aid our System 2 to process what is the produce of System 1. These and other tools have been an adaptation of the amount of data System 1 observes, which cannot fully be handled by System 2.

7. Heuristics

One of the better known and common mechanisms used to aid System 2's thought-process are called heuristics. A heuristic is a strategy that simplifies decisions, decreasing their difficulty to perform. As Kahneman notes, decision-makers switch a difficult question with an easier one (Kahneman, 2003). They

are cognitive shortcuts, whether through "criteria, methods, or principles" that decide between alternative courses of action, hoping to find the most effective path to achieving a goal. "Heuristics play an effective role in such problems by indicating a way to reduce the number of evaluations and to obtain solutions within reasonable time constraints" (Pearl, 1984). It may be a rule of thumb or a cognitive shortcut that guides individual's actions. Analyzing Harry Markowitz's work and 1990's Nobel Prize in Economics for his theoretical work on optimal asset allocation, Gerd Gigerenzer displays how the prized economist utilizes heuristics instead of proven optimization processes.

He states there is an adaptive mental toolbox where we decide upon logic, probability, or heuristics to aid our assessment. But he states and quotes earlier studies where logic applications "have been absolutely fruitless" and that probability theory depicts individuals as the "intuitive statiscian" that manages to preform risky "bets" rather than "deducing true consequences from assumptions". The third tool available in our toolbox would be heuristics. They might not find the optimal solution as they aren't capable of maximizing a function, but they help choose the first option that satisfices, the one "that exceeds an aspiration level"(Gigerenzer & Brighton, 2009).

One of the main differences between Gigerenzer and Kahneman is the result of using a heuristic. While Kahneman believes it aids the decision-making process by reducing difficulty and time needed to choose, it may not always bring a positive outcome. Comparing to a situation where we could digest all existing information, heuristics do help reach conclusions, but may not reach a better conclusion than if we were to use all available information. Gigerenzer on the other hand does state that heuristics on our toolbox will always bring a "suffice" outcome. He does mention however that even though a heuristic might not achieve maximization of outcome, as it does not follow a maximization formula, it will always bring a positive result for the individual.

Back to Markowitz, he answered how people should optimally invest on *N* assets. He proved there is an optimal portfolio that maximizes the return and at the same time minimizes the risk. Being a specialist on the topic, he still did not use that strategy for his retirement investments. Instead, he used a heuristic of investing in the 1/*N* rule, where he invested equally on each of *N* funds. As Gigerenzer points out, in 2006, DeMiguel, Garlappi, and Uppal (2006) concluded that none of their 12 optimal asset policies being tested out against the 1/*N* rule, could actually beat it (DeMiguel et al., 2006). With this example, we identify that even specialists utilize heuristics.

Other examples of identified heuristics come from Goldstein and Gigerenzer recognized two heuristics in 1996 and 2002, as being the "take the best" and "recognition" heuristic, respectively. The first one is developed in deeper extent as it approaches choice through three separate steps, as to "infer which of two alternatives has the higher value by (a) searching through cues in order of validity, (b) stopping the search as soon as a cue discriminates, (c) choosing the alternative this cue favors" (Gigerenzer, 2008). The original work done in 1996 develops these phases further. This heuristic is "ecologically rational" in cases where information is scarce, when there is moderate to high redundancy of cues based on the level of discrimination a cue might bring, and where cue validities vary highly, being these cues' validity symbolism of predictive power (Gigerenzer et al., 1996).

The other heuristic identified by these authors, the recognition heuristic, is another example of "ecologically rational heuristics", which is rooted in psychological capabilities that humans have developed, such as memory. Before explaining the recognition heuristic, let's see what ecological rationality is. It is the "match between mind and environment. This analysis includes the coevolution of heuristics and environments". It helps determine the environmental structures where a heuristic is successful (Gigerenzer, 2008).

Based on Simon's emphasis on recognition memory and limited search as preparatory steps for decision-making, Gigerenzer and Goldstein identify a technique of exploiting "potential information in a lack of recognition", as to model-inferences from memory. These authors, based on Ulrich Hoffrage's dissertation, lead to the formulation of the recognition heuristic. The dissertation was first done in 1995, but now it is described in the edition of 2011 (Hoffrage, 2011). Hoffrage conducted a study consisting of two sets of questions for German students. Both questions asked the population of a city, but one set had American cities and the other set had German cities. The predicted outcome, as the author states, would be that German students had more knowledge of their countries' cities. However, the conclusion of the test brought better results for American cities' population guesses. This supports the previously existent "Less-is-More" effect, but now applied to the recognition heuristic, where "familiarity" is a probabilistic cue. This heuristic made German students believe that American cities, compared to the German cities, probably had less population, due to having less memory recognition. If we extrapolate this data to products, consumers will infer that a recognizable product will appear to be of higher value in a certain criteria, than an unrecognized one (D. G. Goldstein & Gigerenzer, 2002).

Heuristics can improve decision-making and even outperform specialized decisions, such as the one involving the German students. In a study where individuals with lack of recognition of tennis as a sport and tennis tournaments were asked about the outcomes of Wimbledon tennis tournaments, participants ranked equal or higher than the official ATP Rankings' predictions, all based on player recognition. The ecological rationality behind the recognition heuristic present in this trial, formulates a triad of connections between the criterion (player success), the mediator (newspapers), and the participants recognition. It follows a natural flow of information where we absorb data from media, we

generate opinions on the criteria, and then this criterion influences the media, which once again feeds us the information. The newspapers influenced participants with the players and competition's information of a past time. These participants would then infer about the players' success, which is the criterion (Scheibehenne & Bröder, 2007).

On the other hand, heuristics can also bias consumers. Anuj Shah and Daniel Oppenheimer established a framework based on effort-reduction, where heuristics are labelled and ranked by the amount of effort they can reduce when decisions are made. They state that heuristics will result in one or several methods of effort-reduction, such as examining fewer cues, simplifying the weight principles of said queues, or even considering less alternatives, among others. What results from this process may not just be a positive outcome for consumers (Shah & Oppenheimer, 2008). The price heuristic is an everyday example of this reality. The observation we make of a product might not match its reality, such as the relationship between quality and price. However, perceived quality has been linked to monetary price. If our perception of quality increases or decreases, it will affect our perception of expected price. The same happens the other way around, as the price heuristic "suggests that people judge expensive products to be of high quality" (Mitra, 1995 apud Shah & Oppenheimer, 2008). If a new product enters the market, and we have no informational cues about it, besides their shelf price, we will relate that product with similar ones we have seen in the past, and based on those products' prices, we will define quality based on the newcomer's price. This said, if a low-cost product presents itself with a high price, we would be at risk of making a bad decision in case we wanted a high-quality product. The same risk exists if we saw the low-cost product being similar to a high-cost one and inferred the same associations onto the low-cost one as we had about the high-cost example.

Heuristics are simple, solution-seeking mechanisms, but if they fail to achieve a correct assertion, they can result in cognitive bias as we are capable of understanding now. When heuristics are applied, there is a "relative neglect of other considerations" (Tversky & Kahneman, 1983). If this neglect leads to violations of formal logic or judgement deviation from what would be the perspective of accepted norms, it is a bias (Dan Ariely, 2009). An example given by Kahneman shows how a heuristic can lead to a systematic mistake. Think about words starting with "r" or words with "r" as the third letter. People think there are more words starting with "r" than as the third letter. However, the latter is more common in English. This happens since words starting with an "r" are easier to remember (Kahneman & Tversky, 2011). This is the availability heuristic. Information that we immediately recall will deem to be better and of more importance than any other we are taking time to remember (Esgate, Groome, & Baker, 2005).

7.1 Default

There are plenty more examples of heuristics, such as defaults. In computer science, a default is an automatic selection of a pre-determined computational value in absence of a choice made by the user ("default" 2017). This definition is respected by behavioral sciences, and further deduction is made. Experiments have concluded that a default option has a higher likelihood of being made, compared to a scenario without a default situation for said option. In 2004, Johnson and Goldstein, asked 161 home buyers to resolve a simple issue whether to be a donor or not in their new town. In both cases of default, opting-in or -out, the results were relative to the default option. If it was opt-in, the percentage was almost half of the opt-out. The difference was of fourty percentage points. A larger difference was noted as opt-out countries such as

Austria and Hungary showed, in that year, close to 100% consent rates. Those that did not, such as Denmark and Germany, were below the 15% mark (Johnson & Goldstein, 2004). This is called a default effect, or the status quo bias. Looking at the causes of these default effects, recommendation as a form of communication and implied endorsement from policy makers, does influence decision-making. If the individual trusts, or supports their governmental entity, they are highly likely to stick with the default. If the contrary occurs, where disapproval exists toward the policy maker, the default is undesirable (McKenzie, Liersch, & Finkelstein, 2006). Another reason for defaults comes from the cognitive effort that is attempted to minimize during a decision (Kahneman & Tversky, 2011; Samuelson & Zeckhauser, 1988). Factors such as level of involvement (Clarke & Belke, 1979), the recurrence of a decision (Hoyer, 1984), the complexity of the decision, or the lack of awareness of an actual choice at stake (C. L. Brown & Krishna, 2004) are also variables that help explain the cognitive effort behind decisions. A fourth concept that aids explaining status quo effects, is the weight of meaning behind opting in or out. An experiment in America lead by Cornell University, highlighted how opt-in situations find an altruistic action of high value, and thus are very sensitive to that action. Whereas opt-out countries find the same action to be of less value, or sacrifice, as participants showed a lower level of sensitivity to the same altruistic action this time around (Davidai, Gilovich, & Ross, 2012).

7.2 Frame

In 1991, Kahneman and Tversky, explained how individuals would rather avoid losses than gain equal gains (Tversky & Kahneman, 1991). This reality describes loss aversion. We approach it here to showcase how biases can influence one another. In the next example, loss aversion can be influenced by another bias, called framing. By presenting an amount as savings, or the same

amount as avoiding surcharge, consumers on average prefer the first option, being under the effect of a frame (Levin, Schneider, & Gaeth, 1998). There may be several heuristics weighting in on our decisions simultaneously, and these two, default and framing, are examples of this reality.

Kühberger corroborated the framing effect on risky decisions. Through compilation of "136 empirical papers that reported framing experiments with nearly 30,000 participants, we calculated 230 effect sizes", leading to the confirmation that framing indeed affects risk-related decisions, whether they had small or moderately sized consequences (Kühberger, 1998).

Kahneman and Tversky tested two types of equivalency regarding gains or losses. Having into account prospect theory, their experiment was the famous Asian disease framing problem. In the first set, two "gain" options were presented to participants, where, in a sample of overall 600 victims, they could choose to save 200 people, and another option with probability of 1/3 of saving everyone, and 2/3 of saving no one. The one with most responses was option A, to instantly save 200 people. While both outcomes have the same expected utility of saving 200 victims, option A was preferred.

On the second set of testing, two "loss" options were presented. In the first option, participants choose to kill 400 victims. Option B would be to not kill anyone with a probability of 1/3, or to kill everyone with a probability of 2/3. Once again expected utility is the same but this time the preferred option was the latter, option B.

Framing does influence interpretation and response as the previous example shows. For both options in each set, expected utility is the same, but it is also equivalent in the other set. This means that in both experiments the expected utility was the same, but instead of stating 200 people would survive, the authors framed the other set as 400 people would die (Kahneman & Tversky, 1984).

8. Prospect Theory

Prospect theory is a behavioral model describing decisions under risk. By analyzing alternatives and their levels of risk and uncertainty, the model aids understanding how people think of utility relative to a reference point. The rational choice as Rational Choice Theory dictates, would be to consider absolute outcomes, and not the comparison to the reference point. By framing risky options, decision-makers showcase risk-averse or risk-seeking behavior, based on their expectations. This concept, published in 1979 by Tversky and Kahneman, identifies biased weighting of probabilities. Through a mathematical example utilizing framing heuristics, gains/losses and high/low probabilities are compared between one another to determine risk-seeking or risk-averse behavior.

In an experiment regarding probabilities and analyzing risk-behavior, two options were presented to participants. Option A granted them $2,500 with probability of 0.33, $2,400 with probability of 0.66, and $0 with probability of 0.01. Option B granted $2,400 with certainty. The first option has a higher expected utility but 82% of participants preferred option B. The justification behind such behavior is explained through the overweighting of losses' probability.

The authors conclude that besides biased weighting, individuals are also loss averse as they are willing to take risks in hopes to avoid loss (Kahneman, 2003).

9. Behavioral Economics and Rational Choice Theory

As cognitive biases exist, and knowing they lead to systematic bias behind our decision-making, the utility-maximizing individual as described by rational

choice theory must be revised. As Mathis and colleagues note, the *homo oeconomicus* will "make decisions that neither serve their own interests nor maximize social welfare" (Mathis, Steffen, Mathis, & Steffen, 2015). Instead of looking at what rational choice theory dictates as consumers being selfish, maximizing, and self-centered, behavioral economics observes actual behavior and seeks to predict future decisions. As Mathis and colleagues explain, behavioral economics critiques rational choice theory's axioms. Herbert Simon did explain how the assumptions of perfect rationality contradict reality, as they lacked the capability to describe actual behavior under complex circumstances. The utility function behind rational choice theory is devaluated by Kahneman and Tversky's work. Based on empirical evidence, individuals usually are risk averse, and may base their decisions on arbitrary criteria, such as heuristics. Not only do they make decisions under different assessments, but they also process information differently, as System 1 and System 2 theory explains. While rational choice theory focuses on System 2's process, behavioral economics focuses on overcoming the influences we are under during System 1's process. In Mathis' work, cognitive biases "lead people to take decisions which maximize neither their own nor social utility".

On the other hand, behavioral economics is also criticized for the exposure it gives for "rampant exploitation by business of consumer psychology" while surfacing information that leads to further abuse, as "consumers are easily manipulated by sellers into making bad choices" (Peltzman, 2013). Several pieces of academia lead to the complementarity of both theories. Taking the example of volunteer work, rational choice theory requires aid from behavioral theory to apply their exchange theory. There are obstacles in defining utilitarian calculus besides hours invested and income lost. Aspects such as the social skills of interacting with other people, and organizing own's work, are not

considered by rational choice theory, but behavioral economics acknowledges their existence and includes them in explaining behavior (Wilson, 2000).

Chapter 2
Nudging

The father of behavioral theory, Richard Thaler, has showed how biases, heuristics, and fallacies lead to decisions that deviate from the classic rationality expectation. In "Misbehaving: The Making of Behavioral Economics", conciliating behavioral economics with prospect theory from Kahneman and Tversky, the neoclassic concept of rationality is put into scrutiny and the limits of rationality are questioned. The basis of behavioral economics focuses on the effect that several factors in the decision-making architecture such as psychological, cognitive, emotional and other internal or external influences, such as institutions, have on the decision-making process. This is done without labelling an observed behavior as "irrational" or "rational" as neoclassic theory dictates. By analyzing its causes, objectives, and actual decision-making to reach said goals, individual behavior can be better explained and predicted than before. Ariely shows an example where people do not behave in a rational way. By asking several lawyers to defend the cases of a group of people in need, two situations were tested. In one, they were offered $30 to represent the group. In this case, they all rejected. Classic economics states that money being the regular outcome of their job, these lawyers should have accepted if they believe the amount is proportionate to the work effort. However, the second group of lawyers were asked to do it for free, and this time around, almost all of them agreed to do so. This time they were getting paid $0 to perform the same

service as the $30 offer. Behavioral economics is capable of identifying other reasons besides quantitative measures such as money, but also qualitative such as social norms or hedonic motives (Dan Ariely, 2009; Small & Cryder, 2016).

By having its basis of study on psychology, and placing individual and institutional behavior under scrutiny, behavioral economics can start off where neoclassic economics ends. Weintraub stated that neoclassical economics bases itself on the three assumptions of rational behavior. These are that individuals and firms maximize utility to the fullest, that people will only act upon acknowledging all pieces of information available and deducing an optimal decision based on the full knowledge given by the available information, and at last, that people have rational rankings and preferences between outcomes that are associated with values of their own. In the end, the method with which individuals utilize scarce resources is the definition of neoclassic economics itself, maximizing utility based on limited available resources (Weintraub, 1993). However, behavioral economics critiques these axioms, as individuals are not labelled rational or irrational if they step inside or outside of neoclassic economics' limits. Behavioral theory demonstrates how the boundaries of rationality are not so strictly defined, by respecting people's bounded rationality. When decision-makers disrupt the self-centrism and egoism that neoclassic theory defends as being irrational, behavioral economics approaches this observation as an explainable rationality. "The fields [of neoclassical economic theory] are primarily concerned with the rationality, or lack thereof, of economic agents" (D. Goldstein, 2005).If an individual shares income with someone else without getting anything on the levels of physical or physiological utility back, neoclassic economics clearly states this decision as irrational. On the other hand, behavioral economics looks to examine the possible reasons for such conduct. In the end, if the individual does find pleasure in sharing income, even though they are sacrificing the money earned

through a day's work, and ultimately also sacrificing irrecuperable time, their decision-making is studied and explained by behavioral scientists as capable of being rational.

Stepping into the realm of behavioral analysis, decision-makers don't rule their lives solely based on pre-defined rules of behavior such as the neoclassic axioms. They are not predictable based on fixed rules of economics or acting as robots that seek out their own interest to the fullest even if that means to discard others. Behavioral economics picks up the outcome of said decision and backward-analyzes it to find the real reasons behind those actions. The objective is to find the tacit psychological elements that lead to that end behavior. Why do individuals sacrifice revenue to distribute it to others, if they earned it for themselves? It is this whole field of apparent irrationality that behavioral economics develops its cause. Instead of defining rational decisions as doing A or doing B, behavioral economics seeks information on why some individuals go for A, and why others go for B. Sometimes maximizing utility isn't the reason behind choice, it might not be the mathematical decision of subtracting the cons from the pros. Choice may come based on other influencers, and these are not present in classic economics. Behavioral economics looks to improve neo-classic theory through application of psychology, thus including other concepts through observation (D. Goldstein, 2005).

This said, decision-making is no longer a clear mathematical calculation based on machine-like behavior. It is a complex equation that often leads individuals to mistakes, as they do not control all its variables. These mistakes can be learnt, or avoided, whether by personal development, or with the support of public policy. A phenomenon that influences behavior through respecting the freedom to choose while persuading the individual to take one path, is called a nudge. Coined by Thaler and Sunstein, it represents the push

that applied to individuals or firms, will alter their behavior in a prosocial manner. Do not confuse this with suppression or restraint, as it does not violate one's ability and freedom to choose any other path, it just *nudges* them to choose a better one (R Thaler & Sunstein, 2008). Based on Tversky's contributions, Laibson and Zeckhauser define behavioral economics as follows, "this field, skeptical of perfect rationality, emphasizes validation of modeling assumptions, integration of micro-level data on decisions (including experimental evidence), and adoption of lessons from psychology" (Laibson & Zeckhauser, 1998).

The focus of this thesis is on this instrument that increased the field-of-view on the analysis of consumption. Economics has always sought to predict consumer activity, and behavioral economics runs toward the same goal. Based on experiments of real-life observation, documenting both unbiased and conditioned behavior through RCT trials for example, conclusions are then extracted. This conduct is not later generalized after being proven, but rather applied and tested for other possible scenarios. After analyzing practical conduct, only then is theory generated, and not the other way around. In nudging, theory is found by observing behavior and experimenting if it can be influenced without restricting individuals.

This technique was introduced by previous authors but formalized by Richard Thaler and Cass Sunstein. In "Nudge: improving Decisions About Health, Wealth, and Happiness", published in early 2008, concepts such as libertarian paternalism were introduced to help describe the idea of a nudge. A nudge is essentially a strategy where intention is made into action, by respecting individual freedom, but also influencing behavior in a non-controlling way. The pioneer J. Wilk, in 1999, described a nudge as a microtargeted strategy focused on a precise group of individuals. However, nudging theory only gained major attention after Thaler and Sunstein approached in depth the capabilities of a nudge. Based on the success of

behavioral economics, the Behavioral Insights Team was created in the United Kingdom, or "Nudge Unit", and during that same period the United States of America. included nudging theory in public policy through the White House's Social and Behavioral Science Team (SBST). In the same book, Thaler and Sunstein do develop on necessary traits or assumptions for a technique to be called a nudge. Alongside indirect suggestion, an intuitive concept of libertarian paternalism is needed in the construction of a nudge. As Thaler and Sunstein defined, nudges form "any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting the fruit at eye level counts as a nudge. Banning junk food does not" (R Thaler & Sunstein, 2008).

The main pillar of a nudge is libertarian paternalism. It represents the grounded respect and freedom given to the recipient of the nudge, the *nudgee* so to speak. Even though policy makers might know what is best for the population, information and conditioners of action are molded and simplified for individuals to act upon. However, they are not forced to follow what the nudge proposes. This concept of libertarian paternalism is the coalition of freedom and paternalism. The goal of the notion "should be to avoid random, arbitrary, or harmful effects and to produce a situation that is likely to promote people's welfare" (Richard Thaler & Sunstein, 2003). The young offspring listens to guidance from its parents, but then is faced with the option to follow said guidance, act against it, or act indifferently to it. A nudge is an instrument that increases the odds of the child acting according to the parental help. Same idea applies to governments. They know smoking causes illness and affects more people than the individual, so they showcase the resulting problems of regular smoking on the tobacco packaging. The imagery and text content does

provide enlightenment. But it does not forcefully change behavior, nor does it increase it. A successful nudge must not risk the negative attribute of occurring more than before.

Through positive reinforcement, consequence is linked to action, by highlighting how a suggested act will lead to a coveted outcome. Not only must it not increase negative behavior as we have talked about before, but it must lead to an increase in the positive behavior. If no change happens whatsoever, the nudge is ineffective.

To conclude this part of the theory, we started off by setting the boundaries of rationality as not being stiff, clear-cut rules, as the neoclassic theory states. By knowing we must observe actual human behavior, nudging will be tested through experimentation to check if it will bring conclusive evidence on whether it could, or not, be applied. These nudging techniques look to reach a better outcome than historical techniques, while also being a cost-effective intervention.

We have seen before how policy makers can better handle deficits such as lack of organ donations with a simple technique of opt-out for those donations. Nudges have been tested for several prosocial programs such as drug program adherence. We have seen examples of these before, and now we will investigate nudging techniques on another perspective, and that will be of for-profit firms. One of the most famous cases linked with prosocial activity is TOMS, which also improved several key metrics for them, consequence of their social responsibility.

The case of TOMS shoes is a well-known "business of giving" as M. Zimmerman described the business model. They are a Californian designer and retailer of shoes, among other apparel and accessories. Their "one-for-one" social enterprise movement was generated to make what David Lauren, which has previously worked together with TOMS, states to be "the appeal to the

consumer is that when you buy something, you feel connected to something that matters" (Binkley, 2010). This business model gifts a pair of shoes to an impoverished child for each pair of shoes bought at TOMS. So far, since 2005, TOMS has donated over 75 million of pairs, information available in their website, late July. The way the business works is through four main steps. The first one is the purchase from the consumer, which then signals the TOMS Giving Team with their Giving Partners to plan how and where the pair of shoes will be distributed to. After contact is met with the Giving Partners, TOMS is capable of adapting products with tailored offerings through services, logistics, local production and other measures to locals. The last step connects the Partners to the beneficiaries of the shoes, where TOMS maintains a level of support that spills over to other dimensions that the firm also focus on, such as preventing bullying, giving support on areas such as eyewear, child birth, and clean water. Future monitoring of the program is also assured and uploaded to their media pages.

TOMS philanthropic endeavors such as their partnership with "charity: water", which brings clean water to underdeveloped areas, are not dependent on the level of sales. TOMS have their own Water Forward project with the same goal (Ferenstein, 2011).

TOMS "one-for-one" business has been an example of a for-profit, socially responsible company, that inspired other replicas such as Bombas, and One World Play Project, while still increasing profits. And this is a key requirement for their project, profit. They are not an NGO, and as Mycoskie stated, Bain invested in TOMS to get returns, not just due to charitable giving, but because "they see our giving and our purpose as a competitive advantage"(Lebowitz, 2016). The CEO knows only a profit-seeking firm will be able to sustainably develop prosocial programs based on long-term revenues, while NGOs are dependent on spontaneous private or public funding and support.

This is a very important dimension to nudging. Previous academia strongly focuses on non-profit organizations and policy makers. The objective of nudging has been one that creates prosocial outcome, by making decisions clearer and incentivizing them for individuals, while respecting their freedom of choice. By promoting their socially responsible program of donating a pair of shoes per pair sold at their stores, the alliance between solving inequality problems while increasing sales, is a success loop. The more the firm sells the more they can donate. The higher the quantity donated, the bigger the value that the firm has for the recipients of TOMS interventions, but the value is also felt by consumers that want firms to aid these communities (Edelman, 2016).

To conclude, the reason why nudging shows potential for brands is due to the fit that it brings to current strategies, as there are many types of nudges that can be applied, as it is an adaptable tool. As a cost-effective and transparent tool, it has been proven to bring better fruition at lesser costs than traditional techniques, making it easier to analyze the data from experimentation (Sunstein, 2014a). Nudging may surge as a candidate to promote differentiation, as these propositions incorporate a "win-win" mentality for both the firm and consumers, creating further affinity with individuals. Policy makers will be kept out of the equation as these measures are intended for companies to employ, but their experiments will still be accounted for as they bring valuable information. In order to start the next chapter on prosocial behavior and the nudging examples that will follow, a nudge does not look to explore individual's biases. Since the main concern over nudging is the threat that firms have over being able to subconsciously manipulate individuals, Sunstein reacts by referring nudging as a tool that neutralizes bias without the need to "explore" individual's vulnerabilities (Sunstein, 2014b).

Chapter 3
Prosocial behavior

Prosocial consumer behavior involves self-sacrifice. Prosocial company behavior should, through analogy, follow the same course. Through forgoing resources such as time, money, or other forms of sacrifice, a prosocial endeavor leads to voluntarily improving an individual, a local community, or even a specific target of individuals – "intrinsically motivated voluntary behavior intended to benefit another" (Eisenberg, Fabes, & Spinrad, 2007).

While prosocial behavior requires self-sacrifice and positive impact for the community as a consequence of action, it can still be motivated by self-centered reasons such as hedonic pleasure, reputation concerns, empathy, among others (Eisenberg et al., 2007; Santrock, 2008; Small & Cryder, 2016). The difference between prosocial behavior and socially impactful behavior stems from the sacrifice the former requires that the latter does not.

The analogy is possible since "as people make inferences about a person's character based on their generous acts, consumers make similar inferences about corporations' and brands' character" (Small & Cryder, 2016). Firms can find selfish results while positively impacting their community, albeit "prosocial actors who benefit are perceived as less benevolent than those who do not" (Lin-Healy & Small, 2013) showcasing the drawback firms will endure due to consumer's skeptical nature.

While we talk about prosocial behavior and consumer inference with specificity to nudging, the basis of understanding how that inference occurs relies on consumer's perspective of said behavior. The pillar of one's perspective over prosocial firm behavior is the intrinsic concern consumers

have of for-profit firms. It is based on the possible ulterior motives behind firm's self-entitled prosocial endeavors.

In order for a behavior to be prosocial we know it requires some form of sacrifice from the agent. In order to recognize if firms are indeed incurring in sacrifice, their social projects are analyzed by consumers if whether or not any sacrifice is being made, as expectations towards firms are to increase profits by masquerading their intentions. In the case of a firm presenting a socially impactful program, consumers "avoid the correspondence bias" due to their skepticism of the real motivation behind said program, as it may not be a prosocial behavior but simply a for-profit socially impactful behavior. In the last chapter of the thesis we will look into the relationship between prosocial behavior and profit in order to understand what the inferences consumers generate of said relationship.

Chapter 4
Corporation Nudging individuals – areas of Social Impact

Throughout examples of nudging and prosocial behavior, majority of evidence regarding consumer inference will come from CSR programs. The nudges presented however, are not directly linked to CSR as these do not require large scale investments to be developed, they may or may not be inserted in CSR endeavors. Since consumers aren't the only recipients of benefits, "both consumers and the social issues the initiatives represent benefit as well" (Bhattacharya & Sen, 2004), nudging presents itself as a strategy that promotes positive change in communities, and may originate on firms'

prosocial values. The need to help correct the decision-making flaws of individuals (Hausman & Welch, 2010), is the focal point of nudging. This orientation should be considered throughout the reading session of the following topics, and that is to correct hurtful behavior of individuals for their own wellbeing (R Thaler & Sunstein, 2008).

A company may look to start producing in an environmental sustainable manner, to aid production areas with investments, or look to generate sustained yield based on those investments, so that besides prosocial outcomes of local development, it will also generate profit maximization (Goodland, 1995).

Several studies indicate that the success nudging generates as a tool, outperforms historical techniques. Examples such as retirement savings "reminder nudges" saw an increase of yearly contributions per $1 spent, more than 80% on average to those of traditional incentives. On energy consumption savings, a social norm nudge lead to an increase to 27.3 kWh saved per $1 spent, while the previous best alternative were traditional incentives and education with 14 kWh per dollar, almost doubling its effect. These examples show that without any pre-requirement from consumers, without any need to invest on educating them, and without any financial incentive added on top of the savings that the household can get, a nudge can reach greater results while being a simple, cost-effective technique (Benartzi et al., 2017). On the other hand, there are nudges that do impact education, or that impact consumers and firms through small financial incentives. The fact that a nudge can be executed differently based on different principles and expected outcomes, appears to be a potent tool to change behavior, that presents itself as a successful cost-effective measure (Wright, Garcia-Alexander, Weller, & Baicker, 2017). Only through experimentation one can understand the impact a nudge may have, as it is a practical instrument that requires field observation.

We will look to grasp, through presenting nudging cases, how they help change behavior with a prosocial goal, while collaterally looking understanding how it represents an interesting investment for firms. Our focus will be on consumer's expectations, beliefs, and reactions to what firms do. Firstly, firm's behavior affects consumers inferences. Consequentially, based on how consumers deduce and react, their actions will be influenced by the prosocial activities of firms, positively or negatively.

In the upcoming chapter, we will analyze examples of nudges that firms utilize in order to reach a prosocial goal. In the second chapter, we will investigate with detail what makes consumers react in one way or the other, whether into approving or disproving a company, or if, and how, they are going to support or punish a firm. After these two chapters, the last one will look to bring light on how firms can act prosocially while also achieving profit, and if consumers believe that a firm can be both prosocial as well as profit-seeking.

1. Areas of Social Impact: Health

a. Employer health plans have been requiring drug-buyers to change their buying habit by having them order medication over e-mail. Through this technique, pharmaceutic firms will reduce costs in points of sale. Home delivery also provides better convenience for both consumers and firms. For consumers, transportations costs and time spent traveling and ordering medication is almost eliminated, as orders can be done through any internet-connected device. The attempt to increase medication treatment adherence increased, being the main prosocial outcome of the measure. Users who

switched to email order showed an increase of over 10% in program completion, going from 74.2% to 85% (Schmittdiel et al., 2011).

The nudge in question facilitates and simplifies the steps required to acquire medicine, which enable consumers to continue their programs by reducing the number of barriers for its success.

b. In 1965, Allen Parducci introduced a range-frequency model where companies would be compared and displayed in a rank based on the pricing. Variables taken into account by consumers suffer from this phenomenon, as slight absolute differences of products/services do not grant the same effect as relative differences (Parducci, 1965). By showing the product characteristics of a company in contrast to another company's products under form of a ranking system, comparison is now made easier and possible. While analyzing several inputs of information for different products, not only do they amount in quantity, but also in complexity, which hinder decision-making. While there are heuristics that consumers use to help overcome this issue, examples such as presenting information in a leaner manner as these rankings do, will help articulate consumer's decisions.

In "Behavioral Economics 2014", Henry Stott and peers lead a study comparing insurance quotes presenting several providers and ranking them through price. The first one would have the lowest price. Other information such as level of service quality reviewed was presented, but the rank was based on pricing. Other participants would see the same set of companies in different orders and with different values for price, excess, and reviews, leading to the above conclusion that the ranking system does generate a lot of decision making aid, as the market share of the firms in the test, were not the same in real markets. (Stott, 2014).

Information was set out in a more convenient manner that showcased how a change in filtered information, which then saw a simplified presentation, could change consumer's decisions as these are overwhelmed by contractual conditions. Nudging based on graphic and simplified language did change consumer's decisions with better preparation and relative comparison.

c. In Jodi Begg's chapter (2008) of the same book, issues such as drug compliance are brought into attention since they are issues affecting both pharmaceutic firms and consumers undergoing the drug program. Her suggestion to help increase the number of users who succeed their programs, relates to prospect theory. She describes the lack of aptitude of individuals to assess the weight of small percentages, and using it as means for motivation. Based on an experiment involving small probability financial incentives for drug treatment fulfilment, the results showcase prospect theory's evidence. The study displays the potential with applying lottery-based financial incentives so to improve drug treatment adherence. With as low as a unique daily lottery per patient with an expected value of $3, incorrect dosage applied went from 22% down to 1,6% (Volpp et al., 2008).

Through finding incentives that encourage users to correctly dosage themselves, the nudge showed great success. As health costs for treating those who dropout of their programs were higher than the expected value of the lotteries, the patients were able to reduce future possible costs by correctly maintaining the program's correct drug administration.

d. In a 2017 article of *Health Affairs*, a nudge was applied with great success to a specific income target, as "effects were more persistent in low-income populations" (Wright et al., 2017). With the goal of reducing "procrastination, complexity, and lack of salience of future benefits", these researchers aided a

group of people beyond the reach of traditional assistance. The nudges taken facilitated comprehension by simplifying the process of following treatment rules, offering friendly assistance through staff support, placing pictures with detailed information, and underlining the importance of completing deadlines. A combination of "behavioral informed design elements" was reinforced with outreach reminders as deadlines approached, through the contact points of e-mail, phone, and mail. The difference between the control group and the intervention group, was that the control group was faced with traditional contact and support, while the intervention group had extended personalized outreach and adherence support.

Overall, the nudge of enhanced communication strategy for those seeking insurance increased enrollment by 50% relative to the control group. The low-cost intervention was as effective as the higher-cost intervention, meaning the most cost-effective nudge was the better result. For those who did not seek insurance, the low-cost plan was a 10% increase comparing to the control group. In the end, both insurance seeking and non-insurance seeking patients were positively affected by the nudge.

e. In 2017's "Nudging for Good Awards", La Roche Posay presented the winner of the competition, a UV Patch that helps control time between sunscreen application for the user. By placing their tiny sticker on any part of the body where sunscreen is applied, the user can point the smartphone's camera at the sticker like a QR code, and immediately know when the sunscreen needs to be reapplied. Their experiment lead to noticeable results as 37% of users used more sunscreen as before, and 63% of the users experienced less sunburn. The patch was given for free and stays the same way in over 36 countries and can even be delivered through online order (La Roche Posay, 2017).

Since people are aware of their incapability to correctly apply sunscreen and take the required steps to safeguard their skin, the sticker came in handy. A study by IPSOS and La Roche Posay indicated 88% of beach goers lack protection during sun exposure, while only 36% of people show high levels of knowledge of the risks involved. With this small patch, users are nudged to not only apply sunscreen more often and when required, but also to learn how long each application usually lasts, which eventually increases their education of the matter (IPSOS & La Roche Posay, 2016).

f. In 2009, General Electric requested an experiment to help reduce the number of employees who smoked. To do so, they carried out an experiment with financial incentives for those who were included in the treatment group. The control group had no intervention, while the treatment group received two incentives: those who didn't smoke for 6 months would be given $250, and those who extended this duration to 12 months would receive additional $400. Results showed how the treatment group, after 12 months, was almost 3 times more successful than the control group, which had no incentives. After the program ended at the 12-month mark, researchers noted that after 18months, the same ratio of 3 times more people had stop smoking comparing to the control group.

The nudge in question not only reduced the number of smokers for the year-long study, but also continued to bring fruition after the incentives period ended. Those who participated were willing to quit smoking, but while the control group showed small results at 5% on the 12-month mark, the nudge showed adherence of 14.7% (Volpp et al., 2009).

2. Areas of Social Impact: Environment

a. EnergyStar's "smart" power strips, an active daily-use instrument for power consumption, was introduced to aid individuals who are concerned about electricity waste. The concept of helping families save money and reduce electricity waste through combining power sockets and a smartphone app facilitates turning off all unneeded devices at home (Energy Star, 2018). The execution is done through the sale of customized power sockets, with extra color information on the sockets themselves, with different colors for each socket space. In the app, consumers are able to completely shut off electricity feed to the sockets they choose, as the app has the colors of the sockets with a description written by the consumer of what is connected to what color. In that way, one can turn off a lot of devices with ease, which helped achieve its goals: reduce electric waste, and reduce unnecessary electricity expenses.

The firm even originated the Energy Star scheme that started in America in 1992. This program is now international and is characterized by a logo that is granted to specially energy efficient tools. Just as the previous example, the core concerns are continuous use, and "standby" waste (The Economist, 2006).

b. Another case, in 2008, was an experiment looking to find an optimal strategy with social norms to motivate environmental conservation in hotels, which reached surprising results as to what the traditional techniques had reached. The goal of the experiments was to find a way to increase towel reuse rate, so to reduce the amount of resources required to clean the towels. By displaying information tagged on towel racks in different manners and with different targets, the authors increased towel reuse rates from 38% (standard environmental message) up to 49% with descriptive norms.

The key to this change results from the fact that participants were more influenced by "descriptive norms when the setting in which those norms are formed is comparable to the setting those individuals are currently occupying" (N. J. Goldstein, Cialdini, & Griskevicius, 2008). The social norm with most impact was one with "same room identity descriptive norm". Their study showed how hotel guests are more influenced by descriptive norms of "group of individuals with whom they shared the same setting" than groups of people sharing the same social setting. Social identities of gender, and environmentally concerned people were the most pinpointed, by participants, as the suspects for most towel reuse. However, gender and citizen identity were the second and third-worst participating causes, respectively, right after the standard environmental message (N. J. Goldstein et al., 2008).

The nudge in question is a result from a decision-making bias called social norms, which are "the behavioral expectations, or rules, within a society or group", which can be explicit in information, or implicit in behavior (Vlaev, King, Halpern, Hallsworth, & Dolan, 2010). While not controlling participants, they were engaged by the message and motivated to be part of the solution to the problem of environmental waste. Those who participated in the program accepted the opportunity to actively help what they believe to be a worthy cause, and one that deserves their support.

c. In 2011, two experiments were made at hotel restaurants where buffets were available. The objective of the two approaches was to reduce food waste. The first experiment was made using smaller plates for the buffet, in hopes to make food seem bigger by occupying more plate space. The second attempt was through sign salience with a text as follows, "Welcome back! Again! And again! Visit our buffet many times. That's better than taking a lot once". Both tests reached the same level of food waste reduction, and they only require one

to be existent. Researchers were able to "reduce the amount of food waste in hotel restaurants by around 20%", and while restaurants already had smaller plates for their table's presentation, costs were negative since no new plates were acquired and the outcome revealed to be a financial positive outcome to the restaurant with less food served (Kallbekken & Sælen, 2013).

Through nudging a social cue through the sign's message, or through changing the perception of how much percentage of plate the food took, in both situations the same result was achieved, food waste was reduced and less "lifecycle emissions of around 1.9 kg of CO2e" were reduced per 1kg of food. In the first scenario, with a smaller plate, not only do people serve and eat less food due to visual illusions that bias perception, but smaller plates themselves lead to underserving, making it a cumulative effect (Ittersum et al., 2011).

d. Looking at a technique that seems more common to spot and one we can identify easier with, is the symbolic tax supermarkets have over using plastic bags. While a tax does naturally represent a policy-maker intervention, it could reveal itself as a cheap, easy to test tool to reduce plastic waste. While the measure looked to reduce usage of disposable bags, reusable bags were seen to increase as well, to compensate for the cost of disposable bags. The proportion of customers using a disposable bag was seen to result in half the usage of those bags, while also more than doubling usage of reusable bags. The authors also compared taxing with bonus of incentives at the same time, but results stayed nearly the same, not justifying the added bonuses. The tax applied was of 5 cents, which gave an information cue that the cost was there to reduce the number of bags sold due to their impact on environment. The bonus was of 5 cents as well, but it did not conclude any impact even when allied to the tax, negating the overall cost.

Resulting discussion revealed that individuals identify the impact those disposable bags have as they were sent to waste after usage. Not only do the 5-cent cost reduce the purchase of these bags, but it also incentives the purchase of environmental-friendly reusable bags, as these had a steeper price and were sturdily made for reuse purpose. Since the 5 cent is a small, symbolic cost, this nudge does not reduce individual's capability to shop with disposable bags, but also increases prosocial behavior by using reusable bags, which increased more than the amount that disposable bags declined (Homono, 2015).

3. Areas of Social Impact: Financial

a. Thaler and Benartzi developed a SMarT (Save More Tomorrow) plan where participants were faced with an option to allocate future portions of their salary for savings, instead of doing it right now. Evidence showed how "behavioral explanations for this behavior stress bounded rationality and self-control and suggest that at least some of the low-saving households are making a mistake and would welcome aid in making decisions about their saving" (Richard H Thaler & Benartzi, 2004).

Results were of 78% entering the plan, and 80% of those "remained in it through the fourth pay raise". Those participants saw an increase in savings from 3.5% to 13.6% over the duration of 40 months.

This endeavor was tested in a corporate setting, as Phillips Electronics employees were given financial advice and participated in information seminars, to which saw their participation increase between experimental group and control group. Due to the overweight that is given to short-term time windows compared to long-term periods, as money seems more valuable now than in a year time, participants show higher inclination toward putting money

aside in the future, than in the moment. Present bias does make individuals feel short-term payoffs to be of higher value than a long-term payoff, even if the second is of higher financial worth (O'Donoghue & Rabin, 1999). Researchers have concluded when rewards are very distant in time, they cease to be wanted, due to time discounting (Frederick, Loewenstein, & O'Donoghue, 2002).

In this case, the deficient behavior of not saving enough for the future was acknowledged by the participants. The SMarT program helped nudge individuals toward the desired increase in future financial stability, which they had trouble doing by themselves. Automating this service would also reduce preoccupation on the side of the bank account holders, while assuring them proper savings plan was in course with increased savings rate per year. In the end, employee participation in pension funds increased mostly based on auto-enrollment (McElvoy & Coggan, 2016)

b. Utilizing a previous example, this one for active every-day use, are Energy Star's "smart" power strips. The concept of helping families save and reducing electricity waste through combining power sockets and a smartphone app facilitates turning off all unneeded devices at home (Energy Star, 2018). The execution is done through the sale of customized power sockets, with extra color information on the sockets themselves, with different colors for each socket space. In the app, consumers are able to completely shut off electricity feed to the sockets they choose, as the app has the colors of the sockets with a description written by the consumer of what is connected to what color.

In the example of Energy Star's "smart" power strips, besides having the capability to shut down every linked power socket, it also is timer-equipped, occupancy sensitive with motion detection, and current sensing which turns off when a device in the master socket has been set to standby (Energy Star, 2018).

Even the U.S. Department of Energy official website shows an article on these gadgets (NREL, 2013; U.S. Department of Justice, 2013).

The nudge in question reduces electricity waste through disabling unnecessary gadgets automatically and also through effortless manual disable. By doing so, financial cost is minimized by aiding consumers to reach what they want, and that is to reduce financial and environmental waste.

c. "Keep the change" is an example of a financial experiment that both aids firms and consumers, and in this case, banks and bank account holders. Bank of America's program would round their consumer's debit card transactions to the next dollar and would place that amount in their corresponding savings account. So, if the account holder were to spend $2,75 on a tea, the bank would transfer $0,25 from the debit account to the savings account. The money is always in the consumer's accounts, but it is transferred to an account that discourages its usage on the risk of losing the contractual interest rate. The consumer needs three connections with the same bank: a debit card, a checking account, and a savings account. While transferring from the debit account transactions, in case the available money is lower than the next transaction, it will not go through as a credit card would. After one is locked in with these contracts, automatic savings does relief consumers. The result was an increase in $1.8 million new savings accounts, and 1.3 million new checking accounts, all this for the first 19 months. The potential of the program is to "increase debit card use, reduce bank costs associated with processing paper checks, and generate incremental interchange revenues from each debit card transaction" (Tufano & Schneider, 2009).

In the same way SMarT facilitated consumer's savings option through automatic programs, while not through progressive increase of the savings amount, with "Keep the change", bank account holders will be able to save

every time they use their money, which also makes for an easy way to control how much they save during the day, making it a nudge for good. A savings-related nudge also presented by the same author was the following option.

d. Tufano presented a "Save to Win" program where those who would put at least $25 in a "Save to Win" certificate of deposit would be entered in a $400 monthly "saving raffle" and the yearly $100,000 jackpot. It was tested out in Michigan credit unions which attracted "$3.1 million in new deposits" (Utah's Credit Unions, 2009).

e. In order to increase employee participation in a 401(k) plan in a U.S. corporation, researchers investigated ways to put in practice an automatic policy. They opted into a default automatic enrollment for a determined savings rate. Those who were employed before/after the enrollment program, were, after 6 months, showing a participation of around 20%. For those employees hired during the default "opt-out" 401(k) automatic enrollments, participation was, after 6 months, at 80%.

With similar goals such as the "Save More Tomorrow" and "Save to Win" programs, this nudge applied the default bias where people tend to not "opt-out" of the standard option to save. Being inserted in the contract as a standard technique, new employees were keen to stay in the savings plan as the bias promoted that behavior (Madrian & Shea, 2000).

Chapter 5
Consumer perception of socially impactful companies

After realizing how firms can utilize nudges to improve consumer behavior, we will now understand how consumers react to firm's attempt to change their behavior. While the nudging brings only positive outcomes for individuals, if the reputation that the firm has in a community is low, expectations of consumers will be high, and reactions to hypocrite investments will suffer severe backlash.

As firms show positive social impact, consumers will react accordingly to what firms do, but also differently from other consumers, as each of them may have different beliefs. First, we will understand how consumers react to firms that act prosocially. It is important to understand what are the expectations that a market has for a specific firm. In case it has a great reputation for continuous supportive behavior, consumers will reward that firm, and will be less punishing in case a crisis happens. On the other hand, if a firm is known to not care, or to not have values oriented to help society, consumers may react negatively if their prosocial actions seem hypocritical.

While beliefs toward that firm may be hard to overcome as consumers have a level of expectations towards a firm that behaves purely selfishly, there is always room to start. Although consumers will be skeptical of all prosocial behavior from for-profit firms, they infer carefully about those that do not share awareness values and show higher levels of connection to historically ethical firms.

Consumer's judge one another's apparent prosocial behavior by looking to identify their motivation. Through analogy it follows that individuals depict

firms based on the same motives, such as self-interested motives or self-perception. Hedonic benefits, empathy, and sympathy are attributes given to single agents such as individuals, while the collection of individuals that constitute a firm and act to represent the brand which does not receive hedonic benefits or feel empathy/sympathy per se.

As such, consumers are skeptical of private firm's possible intentions, such as attention-seeking, status, the need to be perceived as a generous firm, or even the need the firm has to prove to itself that their values respect society's needs. Actions that are based on self-perception issues help prove to stakeholders the positive impact of the firm, and that they can be part of that help if they keep supporting the firm. Since consumers that practice this dimension believe in the social norm that "altruistic acts should be purely motivated", the case is more difficult for firms since their goals to concentrate capital and reach positive financial results is clear knowledge for their consumers, which may be "leading to counterintuitive effects" (Small & Cryder, 2016).

This said, we will consider ethical behavior from firms as their capability to respect communities' *ethos*, and how they manage to be socially impactful while doing so. In order to understand consumer's perspective over the subjects, we will start off with their inferences over a company's un/ethical behavior. Afterwards we will move to how consumers reward firms that align with their expectations, and then realize how this translates in terms of purchasing behavior.

1. Consumer perspective of ethical behavior

When consumers and managers speak of ethics, they "mean a set of moral principles or values to guide behavior" (Sherwin, 1983). The basis of ethical or

unethical behavior lies in the morals. While ethics constitutes an exterior group of values and thus the values of a community, it origins from the internal right or wrong conduct of individuals, the morals. The author states how ethics "considers the justifications people offer for the principles and values they hold".

The moral approach we utilize here will dictate how individuals evaluate company behavior and will be used to analyze the reaction consumers make. While looking to check if a company's behavior fits a moral code, we must understand whichever theory consumers adopt, will differ its reaction towards firms. In this sense, we will point out academician's literature on morals, and not specify a single theory to analyze.

Several authors have studied new approaches to morals, but they evolve from three main theories: utilitarian theory which focuses on the overall welfare of individuals, rights-based theory that concerns itself to "emphasize the entitlements of individuals", and justice theory which relates to an unbiased distribution effect (Cavanagh, Moberg, & Velasquez, 1981). Depending on which theory consumers ground their morals, perspective will change accordingly.

While all these topics are somewhat connected, consumer's expectations regarding any aspect of firms are based on their personal beliefs. When a community, or individual, is faced with a firm's behavior that violates their ethic beliefs, then reaction will negatively impact the firm. In this case, expectations were not met, and as such satisfaction was not reached (Creyer, 1997). This dimension relates to prospect theory as our beliefs are the reference point when evaluating a firm. If ethical behavior surpasses that reference point, consumers will see it as a gain. If an unethical behavior occurs, then is will be seen as a loss.

In terms of consumer decision-making, three types of reference points have been studied: aspiration-based which relate to what the consumer wishes to happen, market-based reference composed of what is currently active, and history-based that relates to what the consumer has seen and dealt with previously (Klein & Oglethorpe, 1987).

This said, consumers who wish to positively impact their community through their consumption plan their decision-making under aspiration-based expectation. They seek out from firms to match their desired behavior and expectations, while also generating social impact. Since they expect a level of ethical behavior that positively impacts communities, firms need to invest in non-sporadic endeavors in order to gain consumer's preference. Creyer states that firms are under several pressure points, one of those being that a company which continuously develops an ethical conduct will be reacted upon neutrally, and not positively. Consumers do not quickly identify a positive behavior as a gain, but as a neutral reality that compensates for their negative impact, a form of compensation. However, not all is bad for firms, as they are capable of understanding if their behavior has satisfied consumers through the price these individuals pay for their products (Creyer, 1997).

There are documented consumer reactions when faced with un/ethical firms. While in the next chapter we will talk about the relationship between consumer and firms, and how they reward or punish companies, we must discuss how consumers will process two types of behaviors from firms. These will be ethical and unethical behaviors. According to each one's expectation, we must approach how these reactions can vary highly.

In Creyer's experiment, four measures were taken regarding ethicality of firms, such as: willingness to reward firms, willingness to punish firms, importance of ethical behavior for consumption, expectations about ethical behavior of firms. Through questions with rating scales from 1 to 7, the most

supported measure was the importance consumers have whether firms behave ethically, with an average of 5.26 points. The next important behaviors were willingness to reward, and willingness to punish, being the first one slightly higher, with 5.04 against 5.03 points, respectively. The least important measure but still over the median, was expecting firms to behave ethically, which had 4.97 points. All the measures indicate importance to consumers that companies share their ethical views, and that they are willing to react according to whether they are satisfied or not with companies' ethical conduct. Concluding the study, the level of importance consumers give to ethical behavior is the best indicator to predict their reaction, while expectations still do matter but to a less extent (Creyer, 1997).

Regarding consumer's attitude toward information about firm's ethical and unethical behavior, reactance is asymmetrical. This is due to a negative bias similar to what we have seen in prospect theory, in the sense that "vices detract from attitudes more than virtues enhance them" (Folkes & Kamins, 1999). The authors reveal that when firms behave morally, consumer inference is more unambiguous about the nature of the firm, while moral behavior does not reveal an explicit positive character (Krakowiak, 2015). The example Folkes and Kamins give about an individual that steals and another person that returns money when the cashier gives too much back, even if the amount is equal, showcases how consumers react strongly to the thief for the immoral behavior, but only slightly positive for the one who returns the money. Explanation comes from informational cues people have of behavior such that immoral characters are more inconsistent. On the other hand, moral individuals are more consistent, or regular morally respectful people, which shows difference based on spectator's beliefs (Skowronski & Carlston, 1987).

"Generally, corporate associations fall into two categories: corporate ability and corporate social responsibility " (Zasuwa, 2011). These are the two main

positioning strategies to what concerns corporate image. Corporate image is a concept that is composed of other concepts that relates to corporate reputation and corporate identity. It is the cognitive image consumers create of the firm, as it has an external dimension, but also an internal one, and it includes internal stakeholders. It represents the capacity a firm has of producing and delivering goods/services. These may originate from associations with efficiency or even consumer's preference. While it represents a broad part of firms, it is one that belongs in individual's cognition. The term corporate social responsibility is one that relates to the status and activities a firm preforms in connection to "societal obligations" (Zasuwa, 2011). Both terms are important for the development of this chapter, as corporate ability is influenced by consumers perception of the product side of the firm, while consumer's expectations and beliefs will affect their opinions about CSR. Product attributes are one part of corporate ability, as they not only influence CA, but also create opinions for consumers, which eventually lead to changing their opinion toward CSR based on that firm's products/services.

To understand how consumers react to different types of ethical actions, we must move on to product attributes. Since assessing firm's ethical actions depends on a multivariable thought process, besides the behavior of a firm, its products must also be analyzed. The same asymmetric conditions apply to products the same way it did to behavior. While negative product attributes are linked to lower-quality products only, positive attributes are linked to all levels of product quality (Folkes & Kamins, 1999).

Through experimentation, the authors concluded that consumers were heavily critical of unethical firms regardless of product attribute. Even ethical firms that simply refrain from unethical behavior but also do not care to resolve it, were almost equally critiqued by consumers as unethical firms were. Product performance was only regarded when ethical firms helped find a solution for

the problem at hand. This information cue comes from the conclusion that "helping provides the consumer with less ambiguous information about the nature of the firm" (Folkes & Kamins, 1999). Overall, refraining from vice did not seem to elicit better reactions for consumers, as these only identify positive behavior when firms actively look to help communities. When faced with similar amounts of information regarding an unethical firm or an active ethical firm, consumers were able to give longer and better reasons regarding why ethical firms behave the way they do, showing how concerned people are to support the right firms.

In terms of purchase decisions, studies indicate three levels of ethicality for firms: unethical firms, ethical firms who refrain from any negative or positive action, and ethical firms who actively engage in prosocial tasks. As we have seen before, unethical and passive ethical firms are seen as similar. However, actively ethical firms are highly preferred and wanted by consumers. In a survey with questions ranging from -3 to 3 points regarding preference, consumer average indicating preference for the actively passive firm was 1.5 points when purchases were in question (Carl & Trudel, 2004). In the same study, 48% of participants felt prosocial endeavors should receive the same attention as financial performance, while 33.7% feel performance should be priority, but society and environmental questions should be second most important concern.

Across all studies, a few topics repeatedly emerge. The expectations of ethical behavior and product sold, the high levels of responsibility towards correcting society's problems, and also that majority of consumers find normal if sometimes firms act unethically, are the common conclusions (Carl & Trudel, 2004).

We have been talking about two situations of what consumers expect from firms, and when they react to firms. Both are important for ethical concerns, but

ethics is not just a means to evaluate firms, but also an instrument for firms to utilize. While superficially, let's understand how ethics can aid firms, with an example of service recovery. Service recovery "refers to the actions a service provider takes in response to service failure" (Gronroos, 1988). Looking to win the consumer back, firms engage in service recovery mechanisms to better their image. Comparing ethical approaches to unethical approaches on satisfaction, quality, switching, complaint, voice contact, private contact, and third-party complaints, ethical recovery showed better results in all of these aspect by up to 40%. Ethical recovery indicated higher satisfaction levels, higher quality levels, lower intention to switch, and lower intention to complain across all variables for unhappy consumers (Alexander, 2002).

Since we are able to acknowledge morality as a variable in the decision-making of individuals, and after the evidence supplied that it is a major contributor for consumer satisfaction and purchase intention, we will approach now what are consequences of prosocial and CSR programs on several aspect of individuals preference, such as loyalty.

2. Loyalty, Consumer-Company identification, outcomes of CSR on Consumer-Company relationship

The effects of CSR influence loyalty variables such as company evaluation, identity attractiveness, and consumer-company identification. Researchers conclude that these three mediate the positive impact that CSR has on loyalty. While they have different relationships with one another, "company evaluation mediates the relationship between CSR and identity attractiveness" (Marin, Ruiz, & Rubio, 2009). Company evaluation showed the strongest impact,

followed by identity attractiveness, and in third consumer-company identification.

In more literature, consumer-company identification, while positively related to identity attractiveness, serves a part in influencing in-role behavior, and extra-role behavior. The in-role behavior, or core-task behavior, relates to employee's official work that translates to their salary system. Extra-role behavior relates to the level of "citizenship" an employee might spontaneously generate besides its core-tasks (Zhu, 2013). Consumers' level of consumer-company relationship did positively affect the roles of workers, which lead to increased working conditions. These characteristics of firms would later on impact communities since "organization's characteristics contributed to the development of C-C identification" (Ahearne, Bhattacharya, & Gruen, 2005).

To broaden the scope of consumer perception over socially impactful firms, internal company outcomes such as awareness, attributions, attitude, and attachment need our attention. These internal outcomes require adaptation as there is "heterogeneity across consumers in their reactions to CSR initiatives" (Bhattacharya & Sen, 2004). Awareness is a pre-requisite attribute of whether consumers are aware, or not, that a firm engages in positive social behavior – "awareness is a necessary condition for any favorable attitudinal and/or behavioral response to be evoked" (Bhattacharya & Sen, 2004). Attributions relate to the worrisome idea that CSR projects might not be sincere, and as such just a means to achieve profit. The two key factors in Attributions pinpointed by the authors are company's reputation, and its fit with the social endeavor. Consumer attitude is another inference that changes if they are aware of a socially impactful program run by that firm. This attitude shows a positive relationship with the other factors since the better overall picture consumers have of a firm, the stronger the attitude and affinity toward it. The last variable is that affinity. Attachment, as it is called, is a reoccurring phenomenon we have

talked about earlier, called the consumer-company identification, a product of past experiences.

On another sphere of internal outcomes, there is also the consumer's well-being. Through focus groups, the authors found that a company's prosocial behavior may impact the overall sense of well-being of the community. "Without (…) necessarily translating to company-specific benefits", consumers aware of a social activity lead by a firm will be granted more pleasure. Some participants noted how their consumption feels more impactful knowing that firms enable that prosocial behavior.

As we are able to understand, literature may dwell deeper on levels of impact for consumers or what variables are considered for inferences, but the majority of authors agree that existing variables for consumer perspective are all connected and need careful integration.

Loyalty is one type of external outcome from companies, but there are more. Purchase intention, and word-of-mouth are other aspects to consider.

Willingness to purchase is linked with prosocial behavior when four criteria are met: when the consumer supports the problem pertaining to the CSR program; when there is a tight fit between firm and the cause supported; when the product's quality matches a high level identified by consumers; and when there isn't a premium price required for consumers to be able to help.

Participants in the focus groups admitted to recommending peers to companies that promote social developments, even if they weren't basing their own purchase decisions on that topic. This disposition to promote a company is partially explained by the level of identification with the company (Bhattacharya & Sen, 2004).

3. Impact on purchase behavior

Product evaluation is linked with product sophistication, the evaluation consumers make of firms, and even the level of social responsibility that products have (T. J. Brown & Dacin, 1997). Corporate association is a multivariable reality where product evaluation and other aspects such as price weight in on the consumer response. We focus on socially impactful firms and how endeavors such as CSR influence purchase behavior. A study focusing on environmental and philanthropic investments made by firms, concluded that CSR "affected purchase intent more strongly than price did". Consumer's acknowledgement of a company's efforts to positively impact each of these cases, showcased an almost doubling purchase intent when the level of CSR was high, and it happened to both philanthropic endeavors and environmental ones. Results describe that low levels of information over CSR programs bring worse levels of purchase intent than no amount of information. Respondents that had low amounts of information identified firms as not doing enough, and their purchase intent punished those firms. The second-best possibility after having a high amount of information about what firms do to help communities, is to not know anything at all. Having slight information about their social activities brings the worst possible results. On the dimension of pricing, overall, when price was high or low, CSR showed the same levels of impact, and price was a less impactful variable than the level of CSR (Mohr & Webb, 2005).

Consumers have admitted to continuously buying from unethical brands, but that they do so only if prices are kept low, which eventually hurts those firms. Businesses that do not show social concern are at a loss since markets already have a set of expectations which work as reference points for their decisions, and levels of social impact are one of those expectations. Consumers reward firms that look to resolve social issues and that tackle product-resultant

problems. They showcase that by affirming to have higher consideration for firms that do so, and by showing higher willingness of preference and willingness to pay higher prices (Creyer, 1997).

If firms have built-in values that align with the cause they invest resources on, even if performance-related motives are mixed with the prosocial endeavor, consumers see them as "typical strategic goals", such as number of fans acquired or increase in sales achieved. Reactance to these changes is still positive as "typical strategic goals of getting and keeping customers are inherent in the existence of a firm as a social actor and are widely accepted" (Ellen, 2006). On the other hand, if CSR efforts are related to requirements from stakeholders, consumers react negatively, as the origin of those efforts is not natural to the firm, but rather an obligation, which backfires by lowering consumer's purchase intent.

Extensive research has been done linking consumer's response and firm's positive social approach. A higher level of fit between the firm and the cause would translate on an expert transfer of resources (Hoeffler & Keller, 2002), an action based on the character of the firm aligning with the social investment (Fein, 1996), and a positive influence "in consumer beliefs, attitudes, and [purchase] intentions" (Becker-Olsen, Cudmore, & Hill, 2006). In this last study, 52% percent of consumers admitted to boycotting their consumption on firms with poor records of CSR. Besides level of fit, the commitment to a cause is an important dimension that determines whether or not a firm is exploiting the cause since it is about "what the recipient can do for the corporation", and not how the corporation can bring value to the cause (L'Etang, 1994). Researchers describe three levels to commitment with social causes, being "the amount of input, the durability of the association, and the consistency (stability) of input"(Ellen, 2006). From these, the duration of the association was the most important cue for consumers to assert the company intentions, commitment to

success, and more time for consumers to learn about the relationship between the firm and the cause (Webb & Mohr, 1998) (Hoeffler & Keller, 2002) (Varadarajan & Menon, 1988).

Since we are approaching purchase intention which is an external outcome of the relationship, there are also internal outcomes such as trust and affective identification, which are also means to increasing purchase intention. While willingness to buy has a positive relationship with trust, affective identification is linked with one's membership, pride, and affiliation (Whetten & Godfrey, 1998), which showed almost five times the sensitivity toward purchase intention (Lin, Chen, Chiu, & Lee, 2011). The same authors identify CA as being more influential than CSR as it is a means for CSR to be well executed, and somewhat translates the potential for CSR programs.

In more recent surveys, The Harris Poll in 2014 found that 17% of Americans stated CSR having strong effect on their decisions, while 59% others admitted to being occasionally affected (The Harris Poll, 2014).

Aflac surveyed Americans and found several important insights regarding purchase behavior over CSR firms. The leading reaction from consumers that are faced with responsible firms, is to prefer and buy their products (49%), and 78% prefer firms that do it regularly than those who do it spontaneously (AFLAC & Fleishmanhiller, 2016).

Regarding a worldwide perspective, 55% of consumers are willing to pay extra if their products are linked to social and environmental responsible firms, and 52% check if products have sustainable impact (Nielsen, 2014).

Chapter 6
Profit-seeking and social impact supported by consumers

The perfect reality for a firm would be to define a prosocial program that ultimately increases profit, while also minimizing costs. Even though profit-seeking goals and prosocial endeavors might look opposite terms, they can cooperate. Studies by Edelman point out that 80% of consumers believe a firm can act to reach profit while also improving socio-economic conditions for the community.

By investing in for-profit prosocial campaigns, firms may earn consumer's trust. Consequentially, from those who do trust the firm, 59% spread positive word-of-mouth through recommendations to peers. Those peers who received recommendation, will act upon it, as 68% make purchases from brands they trust over others. In order to increase the level of trust, contributing to "the greater good" is a must for 45% of consumers (Edelman, 2016).

This is an additional evidence for the need that firms have towards helping individuals. This necessity surfaces from societal expectations, and since consumers knowingly support firms that generate positive social impact above other firms, nudging may appear to be a tool that reaches profit beyond prosocial outcomes. Through Edelman's study, 8 out of 10 consumers support firms that behave prosocially, even in the cases where the endeavor brings profit.

In the perspective of firms, nudging is a seamless cost-effective tool that has been proven to beat traditional implemented tools (Wright et al., 2017). The main problem on the entrepreneurial side of nudging, is that a nudge seeks to correct problems in the decision-making of individuals, and as such, it cannot

be delineated and programed to purely seek financial result, and only as a consequence of helping consumers (R Thaler & Sunstein, 2008). If a firm looks to simply change behavior to what they believe is the correct behavior for individuals, that would be a marketing campaign, and not a nudging campaign.

While we have already discussed that firms may reach financial results based on their socially impactful investments, we also know how skeptical consumers are of firms that may be behaving hypocritically. In fact, individuals who might behave in a selfless manner are observed with higher criticism regarding to possible selfish motivations than actual obvious selfish behavior. This happens since "people see «too much» self-interest in seemingly selfless actions, given their prior beliefs, but see the predicted amount of self-interest in seemingly selfish actions" (Critcher & Dunning, 2011).

Taking this into account, and in order to respect the foundations of what composes a nudge, and to help consumers as well as the firm, a nudge must always be planned to correct individual's behavior for their own welfare. In the process, if these individuals have been lacking on their drug adherence programs, if they have been eating unhealthily at canteens, or if any other negative behavior is observed, firms that look to correct these behaviors are also supported by consumers to gain profit, as they might be the ones selling the drug used for the program, or the healthy food to implement in consumer's diets.

Firms that engage in prosocial acts while focused on receiving benefits are seen as being less benevolent as those who do not receive compensation. Firms can receive benefits with their programs, but "selflessly motivated prosocial actors are perceived as less likely to benefit from their acts" (Lin-Healy & Small, 2013). Literature shows how contradictory profit and prosocial behavior can be, as benefits for firms should not be the focus of socially impactful behavior.

While prosocial behavior is rarely seen as purely selfless, individuals still connect altruism with some form of self-sacrifice, as behaving without focus on benefits. The dichotomy has been studied and made clear how prosocial behavior can only be selfless if no benefits are received, and in case there are indeed benefits for the agent, then it is a selfish motivation (Lin-Healy & Small, 2013).

In this sense, if firms do engage in prosocial behavior to achieve profit, they will be interpreted as acting through selfishness. As socially impactful as an investment can be, if motivation is critiqued by consumers as it is based on self-interest, the prosocial impact perceived by communities will be overlooked by the extrinsic motivation relating to the "tendency to be motivated partly by others' perceptions"(D Ariely, Bracha, & Meie, 2009).

Getting back to track, for a socially impactful behavior to achieve positive results for firms, whether directly or indirectly, it must be based on the need to help communities. CSR investments are planned toward increasing sustainability in procurement and distribution, while positively affecting local communities that are impacted by the firm's activity (Investopedia, 2018). However, as the chapter is named after this issue, can CSR programs, a form of socially impactful attempt, be selfless and engage for profit?

As we have seen before with Edelman's survey, consumers respect companies that are socially impactful and that may get profit from that behavior, as societies required firms to help correct existing imbalances. The first point of this chapter is to understand that a prosocial endeavor, be it a nudge or a CSR program, can only be faced with support by individuals if it indeed helps them. The difference between nudging and socially impactful behavior relies on the motivation. While CSR programs may bring sustainable solutions, it is with the motivation to gain benefits either financially or imagery-related, that firms engage on such practices (Asemah & Edegoh, 2013; Mandina,

Maravire, & Masere, 2014). Pepsi's Refresh Project is an example of this scenario. It helps link socially worried consumers with private investment. Consumers that have their opinions shared on their website, and that reach the highest level of support from peers, the one that is "liked" the most, will be integrated in the project and financed by PepsiCo (Tran Advisor & Krasner, 2015). The project was later canceled as it did not bring enough financial results to the firm, bringing light to why individuals assess prosocial actions with skepticism, as motivation from PepsiCo was that "doing good would necessarily lead to good things for the firm as well".

Another example is the English gravy brand Bisto, that launched a campaign in 2014 called Spare Chair Sunday. It lasted three months, starting in December. The idea was a link between Spare Chair Sunday and another organization called Contact the Elderly, where families would cook a Sunday meal and invite an elder to dine with them, to combat loneliness. For those three months, volunteers for the Bisto CSR program reached 5,500 elders by the end of the campaign. Even while the prosocial goal was met, in the profit side of the firm, market share had been increasing over 4% over each year, tightly linked with their prosocial operations. Over that 3-month period, sales grew 20%, and by the end of the endeavor, the market share was of 80.3%, the highest it reached in the previous 5 years. Browne, former CEO of BP, stated that "the most inclusive companies achieve abnormal returns of more than 20% over a 10-year period compared to competitors" while underlining the long-term success of including all stakeholders in the company's social behavior (Rogers, 2016). While based on the orientation of the project to reduce levels of elderly isolation, this campaign was not continued after its duration, and it was an isolated case which looked to be a mere marketing campaign that brought clear benefits for the firm, so literature and examples in real-world environments have shown how hit or miss these strategies can be. But agreement exists in the

impossibility to fully fit prosocial impact and for-profit behavior, but it can partially occur.

On the other hand, a nudge must be motivated through the identification of a mistake in the decision-making of individuals that can be corrected with proper research (Hausman & Welch, 2010). It must respect individual freedom, as its obligation is to not restrict choice, while changing behavior in a prosocial manner for the individuals at stake (R Thaler & Sunstein, 2008). It differentiates from a marketing tactic as the core existence of a nudge is to correct behavior, and not to sell a product. What past examples we have given and more that will be given below, cases where nudging brought benefits due to correcting consumers behavior, are good incentives for firms to aid societal needs. Nudging appears as that partial manner in which prosocial impact and for-profit firms can interact.

"Keep the change" savings program is one we have approached before. But besides increasing the amount of savings accounts in $1.8 million, it also had its positive outcomes for the Bank of America. Some of these were customer retain levels with a long-term interest rate for the savings account. If money is moved, then the rate will be affected. Consumers needed three connections with the same bank: a debit card, a checking account, and a savings account. To quit the program, consumers need to visit a bank branch or make a phone call, while its enrollment is easier and can be done online. This creates friction to exit out of the program, but the options are still there. For the bank, not only do they secure money since it was taken from checking accounts to the respective savings accounts, but also opening the savings account has a minimum of $25 dollars for a child account, and $100 for a regular one, with monthly fees reaching $12 (Bank of America, 2018). After one is locked in with these contracts, automatic savings does relief consumers. The result, besides savings

accounts, was an increase in 1.3 million new checking accounts, all this for the first 19 months.

The potential of the program for the bank is to "increase debit card use, reduce bank costs associated with processing paper checks, and generate incremental interchange revenues from each debit card transaction". These new savings accounts earn an interest of "0.20 percent in the bank's regular savings account permitting the bank to profit from the net interest margin" (Tufano & Schneider, 2009).

Another example we have seen before as well, this time regarding health, is a lack of drug program completion. The 2017 article of *Health Affairs*, regarding a nudge that was applied with great success, proved how increased volume and number of contact points with clients lead to better regulation and program completion.

Before treatment began, patients who were to be selected for treatment would undergo a patient list lottery, and in case they were accepted, they would be contacted. The pre-treatment stage was also under research. The study analyzed three cases where one would be contacted in the traditional sense, through basic mail acceptance note and e-mail application packet. Another group received low-intensity intervention, where besides the basic contact detailed above, they received more contacts ranging from postcards, to automated telephone messages, making these contacts cost $1.75 per person. The third group had high intensity, with added personalized phone contact and in-person outreach, having an individual cost of $28. The higher-intensity of contact lead to the highest enrollment, but not so far from the other two, less than five percental points from the others, which may not justify the difference in cost per person, since the cost increased by 1600% for a lower than 5% increase in enrollment. However, the low-intensity nudge showed a substantial increase of enrollment to justify its $1.75 cost, which resulted in lower income

families being able to increase their enrollment. This increased contact reach represented a level of support which meant for these families an increase in treatment success.

As we saw before, enrollment increased by 50%, since patients were more self-aware and motivated to pursue the program. The low-cost intervention was as effective as the higher-cost intervention, meaning the most cost-effective nudge was the better result. In the end, both insurance seeking and non-insurance seeking were positively affected by the nudge. Besides reaching its prosocial impact of increasing treatment completion, the firms selling that medicine also increased sales as treatment completion improved.

To conclude this chapter, we have been following the potential nudging has with regards to its social impact while also being a profitable tool for companies. While consumers react differently to firms that positive impact communities while taking something out of it without a proper sacrifice, consumer inference is not as good as companies would like. Since prosocial behavior requires sacrifice which may lead to some form of benefit for firms, the "norm of self-interest" (Ratner & Miller, 2001) does not give companies much space to show their level of sacrifice, as consumers focus on the benefit the company gets and its selfish standard. Consumers are cynical of brand's prosocial behavior as "brands strategically leverage associations with causes that their consumers care about" for their own personal good, which makes consumers on the lookout for hypocrite behavior. As such, prosocial behavior and profit-seeking endeavors are two concepts that appear to show a disjoin nature in a corporate dimension. Consumers seem to not perceive company's sacrifices as those of individuals, since firms concentrate bigger amounts of capital and act upon profit. Rich philanthropists that advertise their "social worry" are an example of sacrifice that individuals can make but receive similar

reaction as firms do, one that is not esteemed due to its marketing nature (Porter & Kramer, 2002; Small & Cryder, 2016).

Chapter 7
Conclusion

Cooperation between prosocial behavior and profit can be done through correct nudging. The last chapter brought salience to the possibility of social impact relating to profit. We understand how traditional socially impactful programs are respected by majority of individuals since they address society's issues (Zasuwa, 2011). However, they are still far from being called selfless programs, and as such they generate a lot of skepticism on the consumer's perspective. We have established that there is no perfect fit between prosocial behavior and profit-seeking, but nonetheless they can cooperate. And the most important dimension of this conclusion is to help understand the topic of the thesis: what is the relationship between profit-seeking and prosocial behavior? Since the question is made on consumer inference, we know now that consumers expect and require capital concentrating firms to act on the half of their consumers in establishing a better society. If firms do so, even if financial outcome is gained, consumers support their socially impactful activities as long as that impact is made possible. Prosocial behavior and profit are two cooperating terms when firms sacrifice resources to increase community's well-being and eventually will reap the benefits of doing so, such as brand image externalities.

Based on the inferences consumers create, they eventually reward or punish firms that are believed to do good or bad for the community. The same

consumers show concern on the possibility that firms may be hypocritical or self-centered with their intentions (Bhattacharya & Sen, 2004). CSR programs are one of the common practices studied and always shows orientation toward positive brand attributes through their sustainability programs.

Since prosocial behavior is defined as positive impact on the agent's surroundings which requires sacrifices made to one's life, the relationship between prosocial behavior and profit-seeking is usually incompatible, but as we have seen before, possible. As Small and colleagues stated, not only does this form of behavior require a sacrifice from the agent but it also derives strong doubt from individuals. Consumers are more judgmental of this norm toward firms than toward peers (Small & Cryder, 2016). The consensus over firms that have to seek profit no matter what the endeavor is, even if it is a "prosocial campaign", is the source of consumer's doubt over possible hypocritical motivations. Yet, there are still examples of companies who develop socially concerned values and are respected by consumers as for-profit firms with prosocial behavior, such as Ben&Jerry's (Small & Cryder, 2016).

Through correct nudging, the one that respects individual's freedom and that aids consumer's decision-making for their own wellbeing, the tool's potential is unveiled as a prosocial technique that generate positive response from consumers. As we have seen, a nudge is a cost-effective, transparent tool, that requires experimentation and observation to be successful, as it is a practical tool on actual consumer behavior (Wright et al., 2017). It looks to predictably change behavior in a prosocial manner (Thaler & Sunstein, 2008). In recent years, through nudging literature extension, we are able to acknowledge the possibility that nudges may find financial outcome for firms, while also inducing positive social impact, as long as their prosocial nature stays true.

Some nudges, through consumer's eyes, are harder to identify such as the social norms experiment that reduced hotel's resource waste (N. J. Goldstein et

al., 2008). Others are clearer such as he SMarT program that passively increases the savings rate for participants, after its enrollment (Richard H Thaler & Benartzi, 2004). What nudges do that generates attention towards them, is that they have been proven to be of greater success and cost-effectiveness than traditional tools, such as CSR. We have been approaching both nudging and CSR as prosocial tools, but as we saw in the second chapter, consumers react to CSR programs cautiously, afraid that firms will betray their trust and be unworthy of their support (Bhattacharya & Sen, 2004).

Nudging appears to be a great instrument that respects societal values, and individual's beliefs (Creyer, 1997) through understanding their decision-making flaws and placing positive behavioral-inducing suggestions. It also matches consumers expectations of what socially impactful firms should do, and those expectations are to help individual's decision-making mistakes (Bhattacharya & Sen, 2004). Not only does nudging answer the threat of consumers being manipulated by firms through looking to neutralize bias and not "manipulate" it (Sunstein, 2014b). Through evidence shown, we are able to understand the multitude of dimensions nudging can reach, from health, to financial, to environmental concerns, successfully overcoming previous existing programs through the use of behavioral economics. While matching consumer's beliefs and earning their trust through fair and objective decision-making support, the recipients of said help will angle their purchase behavior toward increasing their own welfare, which eventually benefits firms that act selflessly and provide them with better products, being a symbol of competitive advantage over firms that lack a prosocial dimension.

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