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# Consumer Reactions to Products of Social Enterprises: An Application of the Stereotype Content Model\*

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Social enterprises that seek to pursue socially desirable goals through economic profits have received considerable attention in recent years. Despite the widespread attention paid to social enterprises, they often achieve limited success in markets. This research examines how types of enterprises affect consumer judgments. This research considers two types of enterprises: social and for-profit enterprises. Building on the stereotype content model, we propose that consumers perceive social enterprises using the dimensions of warmth and competence. Study 1 shows that a product of a for-profit enterprise is judged as having higher performance, but being less meaningful; in contrast, a product of a social enterprise is judged as warmer, but less competent. Further, in Study 2, we demonstrate that consumers' willingness to buy products can be lowered when the products are offered by a social enterprise. Practical and theoretical implications are further discussed.

Key words: Social Enterprise, Stereotype Content Model, Warmth, Competence, Ethical Consumption

These days the concept of CSV (Creating Shared Value) by Porter and Kramer (2011) has focused on the academic and practical business fields. CSV refers to achieving two goals, eco-

nomical and social performance, with the purpose of win-win strategies. Unlike CSR (Corporate Social Responsibility), which contributes to a society after making profits, CSV creates social

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values through business activities with innovative visions and strategies. Thus, the key factor of CSV is making a connection between the core competencies of an enterprise and the needs of a society.

In this respect, social enterprises showing rapid growth represent the fulfillment of CSV. Social enterprises have emerged as possible solutions to low economic growth, low employment, low birth weight, and population aging by creating employment and providing social services. The demands for a variety of social services are required by fluctuations in socioeconomic environments, such as social polarization, family disorganization, and multi-cultural phenomena. Social enterprises are also instrumental in creating stable employment by caring for a neglected class of people and by solving differentiation in labor markets. Although social enterprises originally emerged to perform social missions, they should also strengthen core competencies to generate revenue. Thus, social enterprises can be viewed as the most desirable form of CSV.

Although social enterprises are evaluated as an ideal enterprise type, their performance has still been unsatisfactory. Existing research has focused on the external and internal problems of social enterprises from various perspectives. According to Rykaszewski, Ma, and Shen (2013), the lack of legal support, the lack of unified measurement for social impact, and limited early-stage access are typical external problems of social enterprises. The internal factors of social

enterprise failure include the lack of a solid business model, the inability to get through funding gaps, and the inability to hire the right people in the right roles (Rykaszewski et al. 2013). Defourny (2001) showed that most social enterprises are still dependent on trust among members rather than common goals or business processes. As a result, social enterprises have difficulties in efficient operation or effective management for sustainable profits.

The goal of this research is to investigate and report on the underlying reasons why social entrepreneurs fail and to provide some new insights. This research suggests that social enterprise failure can be attributed to consumer perceptions about the products or services provided by these enterprises, not to the enterprises themselves. Specifically, building on the stereotype content model, we propose that the quality of the products or services provided by social enterprises are perceived as inferior to products or services of for-profit enterprises. According to the stereotype content model, people use two primary dimensions, warmth and competence, when they perceive or evaluate a social target. Prior research on the stereotype content model has shown that there are trade-offs (high on one dimension and low on the other) in these social perceptions (Cuddy, Fiske, and Glick 2007, 2008; Fiske et al. 2002). In other words, these trade-offs mean that a social target may be perceived as warmer but less competent, whereas other targets may be per-

ceived more competent but colder. This research predicts that social enterprises with the purpose of providing social services are perceived as warmer than for-profit enterprises by consumers. On the other hand, we hypothesize that social enterprises are perceived as less competent than for-profit enterprises; thus, consumers' purchase intentions for products and services provided by social enterprises would be lowered. We demonstrate consumers' perceptions of social enterprises, compared to for-profit enterprises, and their purchase intentions for products provided by social enterprises through two empirical experiments. Our findings provide insights for related literatures and practical implications by addressing the reason for social enterprise failure with a new perspective.

## I. Theoretical Background

### 1.1 Social Enterprise

Social Enterprises (SEs) are defined as "organizations with an overarching core social mission funded through market-based initiatives" (Miles, Verreynne, and Luke 2014, p. 549). In other words, SEs seek to achieve social goals by making profits (Lynch and Walls 2009; Massetti 2012; Meyskens et al. 2010). In addition Defourny (2001) suggested four criteria concerning the economic and entrepreneurial

dimension and five criteria concerning the social dimension. "A continuous activity, producing and selling goods and/or services," "a high degree of autonomy," "a significant level of economic risk," and "a minimum amount of paid work" are involved in the economic and entrepreneurial dimension, and "an explicit aim to benefit the community," "an initiative launched by a group of citizens," "decision-making power not based on capital ownership," "a participatory nature, which involves the various parties affected by the activity," and "limited profit distribution" are involved in the social dimension (Defourny 2001). These dimensions show that social enterprises are different from for-profit enterprises, which aim to maximize profits. Social enterprises should consider not only economic, but also social sustainability.

### 1.2 Warmth and Competence

People usually evaluate social targets with two standards: warmth and competence (Aaker 1997; Cuddy, Fiske, and Glick 2008; Fiske, Cuddy, and Glick 2007; Fiske et al. 2002; Judd et al. 2005). These two dimensions are defined by many attributes. Warmth judgments typically include perceptions of generosity, kindness, honesty, sincerity, helpfulness, trustworthiness, and thoughtfulness, whereas competence judgments include confidence, effectiveness, intelligence, capability, skillfulness, and competitiveness (Asch 1946; Bales 1950, 1999; Rosenberg et al. 1968;

Zanna and Hamilton 1972). According to prior research, the dimension of warmth refers to the motivation to be other-focused and behave in line with moral codes, whereas the dimension of competence concentrates on the effective capacity to bring about one's intent (Fiske, Cuddy, and Glick 2007). In other words, warmth can be paraphrased as "meaning," while competence can be expressed as "performance."

### 1.3 Judgments of Social Enterprises

Despite the widespread attention paid to ethical consumption, enterprises with ethical or environmental attributes are perceived as inferior to for-profit enterprises, which pursue only economic profits. Luchs et al. (2010) showed that consumer preference for sustainable products is reduced when they value the strength of products' performance. In other words, consumers perceived that the sustainable attributes of products meant the loss of strength-related attributes. Prior research on corporate social responsibility also suggested that CSR activities may reduce consumers' purchase intentions (Luo and Bhattacharya 2006) and perceived innovativeness (Sen and Bhattacharya 2001).

We propose that differences in perceptions of social versus for-profit enterprises may arise from the dimensions of warmth and competence. Because consumers perceive superiority on one attribute as inferiority on other attributes (Chernev and Carpenter 2001), warm enterprises are

usually perceived as less competent, whereas competent enterprises are perceived as cold-hearted. Although social enterprises are not non-profit organizations, their character is more related to non-profit than profit organizations. Prior research on promotion practices suggest that for-profit executives are often promoted because they have shown competence and managerial skill, whereas executives in non-profits are promoted because they have shown commitment to the social good of the organization (Moret 2004). Further, when employees working at non-profit versus for-profit organizations were asked to report how they felt about working at their companies, they responded differently (Blizzard 2002). Consumers have the tendency to perceive non-profit organizations as being warmer but less competent than profit organizations (Aaker, Vohs, and Mogilner 2010). They showed that organizations were perceived as warmer but less competent when they used the ".org" domain than when they used the ".com" domain. Kervyn, Fiske, and Malone (2012) suggested that paternalized brands were perceived as warmer but less competent, whereas envied brands were perceived as more competent but colder.

These perceptions of warmth and competence might be particularly relevant as a lens for consumers, who may recognize that a nonprofit organization is more related to warmth, while a profit organization is more related to competence. Consumers may perceive that a social enter-

prise is more related to a non-profit organization, while a for-profit enterprise is related to a for-profit organization. Building on these streams, we hypothesize that consumers distinguish between social and for-profit enterprises and apply the dimensions of warmth and competence to products. Specifically, we expect that a product will be evaluated as more competent but less warm when the product is provided by a for-profit enterprise versus a social enterprise (H1). In contrast, we expect that a product of a social enterprise will be evaluated as warmer but less competent than a product of a for-profit enterprise (H2).

## II. Study 1

The purpose of Study 1 was to test the effects of the enterprise type on people's judgments on warmth (meaningfulness) and competence (performance) of products. In this study, we varied two types of enterprises (social vs. for-profit). We expected that a product would be judged as more competent but less meaningful when the enterprise was depicted as a for-profit enterprise. In contrast, we predicted that a product of a social enterprise would be judged as warmer but less competent.

### 2.1 Sample and Procedure

A total of 30 undergraduate students (mean age = 23 years; 46.7% male) participated in this study in exchange for course credit. We used a one-factor design with two levels of enterprise types (social vs. for-profit). Participants were randomly assigned to one of the two conditions.

Participants were first asked to read an article of a paper-manufacturing enterprise. The two versions of the article included the mission and vision, employee composition, welfare policies, and future plans of the enterprise. In the social enterprise condition, participants were given an article showing that the enterprise pursued both making economic profits and supporting low-income families. Most of the employees in the enterprise were from vulnerable social group, such as people with disabilities or political refugees. In contrast, in the for-profit enterprise condition, the goal of the enterprises was to maximize profits. The enterprise recruited professional and highly educated employees. Only the informational content was manipulated. Other than the content of the messages, the substance of both article versions, such as the length and structure, was identical. All of the content was based on information found on real-world websites of paper-manufacturing enterprises.

After reading the article, participants were asked to look carefully at an advertisement for tissue paper of the enterprise. Then, participants

responded to questionnaires about the expected performance and meaningfulness of the tissue paper. Participants indicated their expected performance of the tissue paper on seven-point scales (high absorption, softness, dissolvableness, and embossed tissue paper; 1 = not at all, 7 = very much). Participants also generated their thoughts on the meaningfulness of the tissue paper using seven-point scales ("Consuming the tissue paper is meaningful," and "Purchasing the tissue paper contributes to social development": 1 = strongly disagree, 7 = strongly agree). Finally, participants were debriefed and thanked.

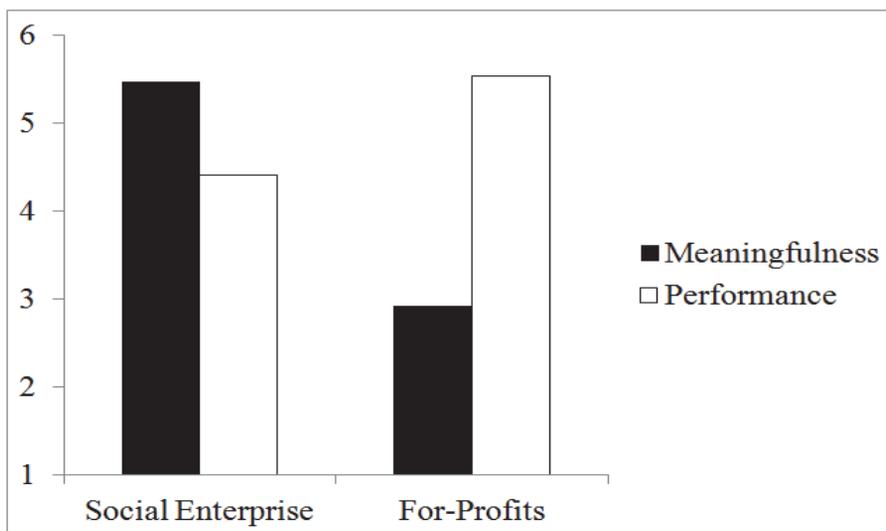
## 2.2 Results and Discussion

We first assessed whether the enterprise type (social vs. for-profit) affected participants' eval-

uation on the performance and meaningfulness of the product. As expected, participants expected higher performance when the tissue paper was manufactured by a for-profit versus a social enterprise (5.53 vs. 4.40,  $p < .05$ ). In contrast, the tissue paper was judged as more meaningful when the product was provided by a social versus a for-profit enterprise (5.47 vs. 2.93,  $p < .001$ ; see Figure 1). Thus, hypotheses 1 and 2 were supported.

The results from Study 1 provide empirical evidence for our hypotheses. Specifically, a product of a social enterprise was judged as more meaningful but less competent than that of a for-profit enterprise. In the next study, we switch to a different context to replicate our findings. Furthermore, we examine whether the enterprise type affects consumers' purchase intentions for products.

<Figure 1> Meaningfulness and Performance as a Function of the Enterprise Type



### III. Study 2

We designed Study 2 to replicate and extend the findings of Study 1. In Study 1, we examined the effect of the enterprise type on the meaningfulness and performance of products. The purpose of Study 2 was to investigate whether the enterprise type influences consumers' willingness to buy products. According to prior research, ethical and environmental products have a relatively low market share (Luchs et al. 2010; Porges 2007). We expected that consumers' purchase intentions would be lowered when the product was offered by a social versus a for-profit enterprise (H3).

#### 3.1 Sample and Procedure

We recruited 220 participants (mean age = 35 years; 49% male) through an online panel company. Participants were given a monetary reward for their participation. Participants were randomly assigned to one of the two conditions (social vs. for-profit).

The procedures of Study 2 were similar to those of Study 1. We used a different enterprise, electronics, which has different product categories, prices, and product involvement. After reading an article about the enterprise, participants responded to questionnaires about the meaningfulness and performance of a vacuum cleaner provided by the enterprise, using the

same scales as in Study 1. Next, we measured participants' purchase intentions on seven-point scales ("I am interested in buying the vacuum cleaner," "I think the vacuum cleaner can satisfy my needs," and "I want to recommend the vacuum cleaner to my acquaintances"; 1 = strongly disagree, 7 = strongly agree). Finally, participants were debriefed and thanked.

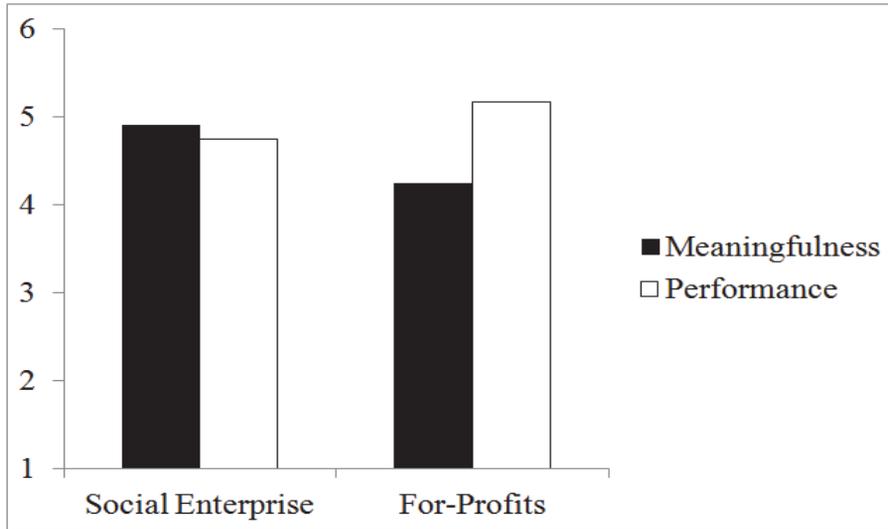
#### 3.2 Results and Discussions

We analyzed the effect of the enterprise type on participants' evaluations on meaningfulness and performance of the vacuum cleaner. As in Study 1, the vacuum cleaner was judged as more competent but less meaningful when the product was manufactured by a for-profit enterprise (5.17 vs. 4.75,  $p < .05$ ). In contrast, the product of a social enterprise was evaluated as more meaningful but lower quality than the product of a for-profit enterprise (4.91 vs. 4.25,  $p < .001$ ; see Figure 2).

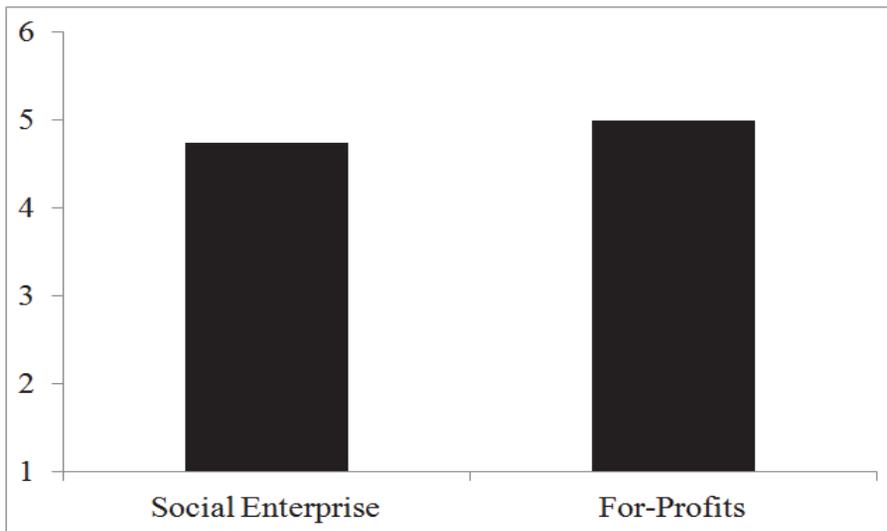
Next, we assessed whether the enterprise type influenced participants' willingness to buy the product. As predicted, participants were more favorable toward the vacuum cleaner when the product was manufactured by a for-profit versus a social enterprise (4.99 vs. 4.73,  $p < .05$ ; See Figure 3). Thus, hypothesis 3 was also supported.

The results from Study 2 extend our research. Our findings not only show consumers' perceptions of social enterprises, but also explain why

〈Figure 2〉 Meaningfulness and Performance as a Function of the Enterprise Type



〈Figure 3〉 Willingness to Buy as a Function of the Enterprise Type



social enterprises are frequently unsuccessful in markets, despite the fact that they pursue socially desirable goals.

#### IV. General Discussion

We investigated the influence of enterprise type (social vs. for-profit) on consumer judgments.

When an enterprise only aims to maximize economic profits, consumers perceive the enterprise as more competent but less warm. In contrast, consumers perceive social enterprises, which pursue economic and social goals simultaneously, as warmer but less competent. Study 1 showed that participants judged the tissue paper of a for-profit enterprise as higher quality but less meaningful, whereas the product of a social enterprise was judged as more meaningful but lower quality. Study 2 demonstrated that participants presented higher purchase intentions for a product when the manufacturer was a for-profit enterprise than a social enterprise.

This research contributes to the previous literature by demonstrating that consumers use two primary dimensions when perceiving social enterprises. Prior research on the stereotype content model has focused on the differences between non-profit and for-profit organizations (e.g., Aaker, Vohs, and Mogilner 2010). Our findings show that social enterprises may be perceived as inferior to for-profit enterprises, even though they pursue economic profits, unlike non-profit organizations. Further, our research has important practical implications by explaining why most social enterprises fail to maximize economic profits, despite the notion that they are evaluated as the ideal enterprise type.

Our findings suggest several directions for future research. We predict that the influence of enterprise type depends on consumers' dispositional differences. For example, given that

a consumer's self-construal significantly influences perceptions and evaluations, self-construal could moderate the effect of enterprise type. Prior research on self-construal has shown that interdependent people seek more social connectedness and harmonious relationships, whereas independent people put more emphasis on their own goals (e.g., Chiu and Hong 2007; Markus and Kitayama 1991; Singelis 1994). We expect that the negative perceptions of social enterprises are mitigated when consumers form an interdependent self-construal, whereas independent consumers are more likely to avoid the products of a social enterprise. Future research should also consider how to improve social enterprise sales. Existing research on construal-level theory has demonstrated that people tend to focus on desirability when they use high-level construals, whereas feasibility is the most important when people use low-level construals (e.g., Dhar and Kim 2007; Liberman, Trope, and Wakslak 2007; Trope and Liberman 2010). We predict that social enterprise sales will improve when the advertisements of social enterprises employ high-level construal appeals.

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