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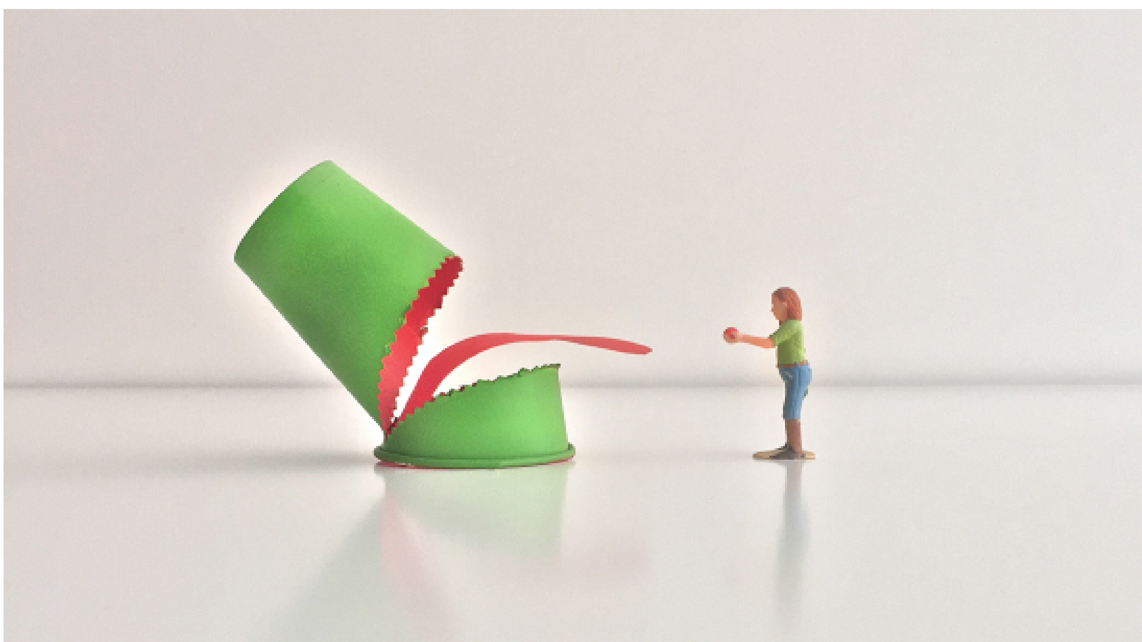


PAUL GARBETT FOR HBR

Imagine you're the CEO of a casual dining chain. One of your executives comes to you with a proposal: she wants to lower the quality of service at the restaurants, reduce product safety standards, use deceptive marketing practices, lower employee pay, and adopt worse environmental practices. Would you expect these changes to result in increased, sustained profitability?

Many American consumers imagining this scenario say yes. In a staggering blow to the ideal of socially-responsible business, American adults who took our surveys for pay consistently indicated that they expect harmful business practices to increase profit. People seem to think that businesses profit by taking value from customers and society, rather than creating value and sharing it with customers.

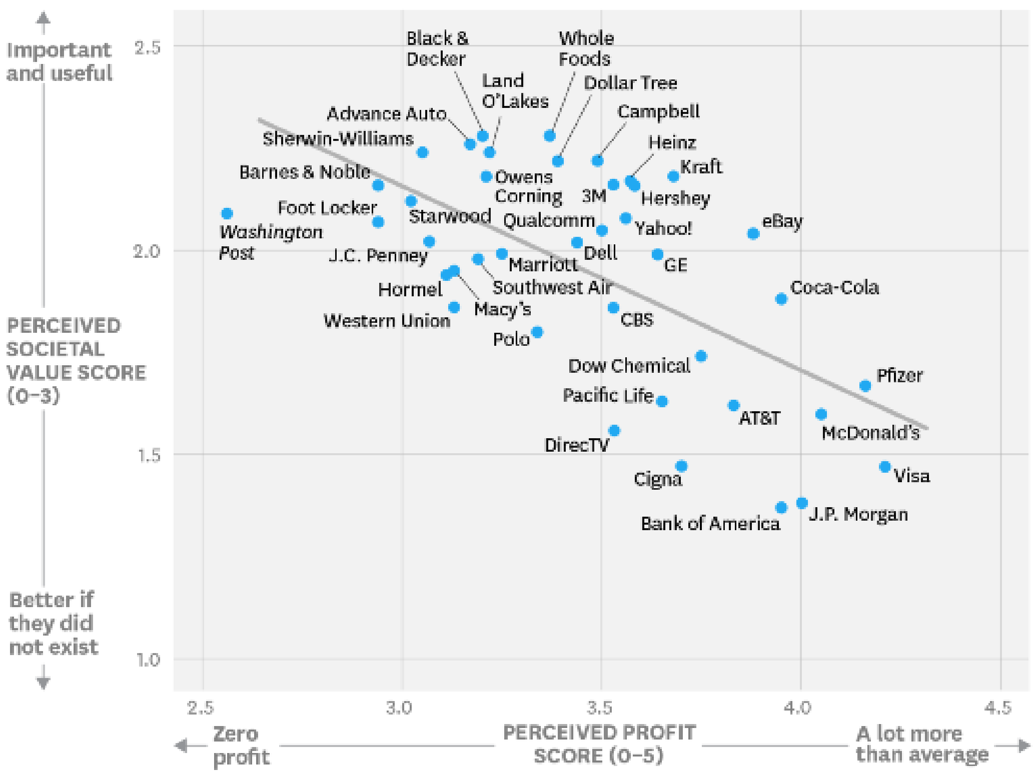
Even in one of the most market-oriented societies in human history, it appears very difficult to make most people appreciate that ethical and profitable business practices do not fundamentally conflict. We describe these views as anti-profit beliefs.

Our research

In an initial study, people provided their perceptions of the profitability and overall societal contribution of 40 familiar Fortune 500 firms. The relationship we found was unmistakable: amongst our study participants, profit was strongly negatively associated with perceived value to society. They saw profit as the result of a zero-sum game.

People Equate High Corporate Profitability with Low Societal Value

Respondents ranked their perceptions of 40 *Fortune* 500 firms.



SOURCE "ANTI-PROFIT BELIEFS: HOW PEOPLE NEGLECT THE SOCIETAL BENEFITS OF PROFIT," BY AMIT BHATTACHARJEE AND JASON DANA, *JOURNAL OF PERSONALITY AND SOCIAL PSYCHOLOGY*, 2017 © HBR.ORG

This relationship may have been unmistakable, but it was also wrong.

We used public data to map firms' actual profit figures against objective measures of their societal impact: the annual corporate social responsibility ratings published by Kinder, Lydenberg, and Domini (KLD) Research & Analytics, which capture a firm's impact on society along dimensions like community relations, corporate governance, diversity, environmental impact, employee welfare, human rights, and product safety and quality.

In the sample of firms we used, KLD scores were positively correlated with firms' incomes. Better behaved firms tended to be better rewarded. The perceived relationship between societal value and profit wasn't just excessively negative, but in the wrong direction altogether.

Anti-profit beliefs do not appear to be a quirk of particular brand associations or negative media attention received by certain firms. Americans assumed that higher profits are associated with less societal value across entire industries as well. Moreover, they believed that a variety of harmful business practices — including overcharging consumers, maintaining lower safety standards, exploiting legal loopholes, and degrading culture — are more prevalent in more profitable industries. Conversely, good business practices, like creating valuable products, were thought to be less prevalent.

The failure to appreciate how profit-seeking enterprise creates value does not appear to be restricted to any particular political group. Even when we break our samples into progressive, moderate, and conservative subgroups, each subgroup exhibits significant anti-profit beliefs.

A series of follow-up studies showed that even when people believed markets were competitive, they neglected how competition constrains firm behavior, and thus expected harmful practices to pay off. Making them think about profit in the long run had little effect. Only explicitly prompting our subjects to think through the dynamics of competition step by step, like whether consumers will continue to buy from a firm that offers bad products, and whether competitors might undercut a firm that is overcharging, made them less likely to expect competitive markets to reward bad behavior.

But these effects were limited. Prompts like these can weaken anti-profit beliefs, but none of them succeeded in making people believe that good firm behavior can have a positive effect on profit.

Why do anti-profit beliefs persist in a market society?

Considering their experiences, it is not surprising that consumers perceive the potential for profit to motivate harm much more readily than its potential to motivate value creation. Most people experience the market almost entirely from the consumer side. Each time they buy something, the exchange is zero-sum when considered in isolation: the more the firm charges, the more they profit and the less value the consumer gets profits. Thus, the more profitable a firm is, the more they have seemingly gained at the expense of consumers.

But what this conclusion neglects entirely is the incentive value of profit. Profit rewards the creation of products that consumers want, the effective marketing and distribution of those products so consumers can get them, and the efficiency with which a firm accomplishes these tasks so it can offer a better deal than competitors. These investments, complex processes, and competitive dynamics are removed in time and space from any single purchase. They are literally invisible to the consumer. Indeed, even when people experience the market as sellers, they are usually reselling something they own, such as their car, house, or used goods on Craigslist or eBay. These experiences require no risky investment in the research, production, or distribution of products that others might value. In short, they provide little insight into the task of value creation. They may even reinforce the belief that profit is a zero-sum game by making people aware of the potential to get a better deal by deceiving the buyer.

But anti-profit beliefs are short-sighted. Smart businesspeople are well aware that a deceptive firm will quickly develop a bad reputation and lose repeat and future business. A firm with excessively high prices or poor quality products will lose business to competitors with lower prices or better products. To attract and retain customers, firms must either charge lower prices or make better products than their competitors. Doing so entails operating more efficiently or innovating to create products that consumers value more. This represents the win-win ideal of the market: competition aligns the selfish motives of profit-seeking firms with the interests of consumers and society. In a perfect market, firm profit and societal value would be perfectly positively correlated.

Of course, markets are imperfect. And even economic experts disagree on how well markets function under different conditions, and thus how positively business profits relate to value creation. But experts do agree on some issues: consumers have choices in most markets, and supply and demand determine prices (and ultimately, profits) most of the time. This expert consensus is incompatible with our subjects' view of profit as almost necessarily coming at the expense of others.

What does this mean to people running businesses?

Anyone who owns or operates a business is well acquainted with the risks, sacrifices, and competitive pressures involved. However, most consumers are blissfully unaware of them. The market economy allows them to get their favorite products and services but take for granted the processes leading to their development and delivery. Touting profitability may impress investors who understand it as an indication of efficiency and innovation in the face of adversity. But consumers might only see evidence of greater greed and ruthlessness than the competition. Broadly trumpeting financial success may alienate Main Street even as it delights Wall Street.

The good news? Consumers do believe that some businesses are willing to forgo profits to focus on serving society. Businesses that seek to maximize long-term profitability may not only seem more patient than those concerned with quarterly profits, but also more virtuous. Though playing a long-term game is no less strategic, consumers may interpret a willingness to sacrifice short-term gain as evidence that a business is unconcerned with profit and pursuing a social mission. Talk is cheaper than generosity, but incurring some short-term costs may more than pay for itself through long-term reputational benefits and greater consumer loyalty.

Our studies find that highlighting the invisible risks, costs, and market constraints that incentivize long-term value creation can at least attenuate anti-profit beliefs. What processes led to the development and delivery of a given product or service? And how do today's profits directly fuel the costly research and development that goes into tomorrow's innovations? Though consumer education often focuses on specific new products, businesses may benefit from taking a broader view. How many consumers understand the nature of pharmaceutical research, how market prices affect oil companies, how credit card providers operate, or what investment banks actually do? The PR problems afflicting these industries might be somewhat mitigated by greater transparency about their operations, earnings, and cost structures.

Relative to the scale and financial might of big businesses, individual consumers may feel powerless and devoid of influence. They may need reminders of their enormous collective power and influence. Their dollars are votes that directly shape what businesses must do to survive, and those votes add up.

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Jason Dana is an assistant professor of management and marketing at Yale. His research focuses on how people make decisions, particularly ethical decisions, in a wide variety of managerial and consumer contexts, such as how people deal with conflicts of interest, decide whether to give to charity or help others, and decide whether to be dishonest.