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## **Publicity As Justification**

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Whereas public displays of negative behaviors are undesirable, we show a counter-intuitive positive effect of publicity on people's inferences and evaluations of apparently negative behaviors. Observers evaluate an apparently negative behavior more favorably when it is done publicly than privately. Our results support an expectation-disconfirmation mechanism of the current effect.

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# Price Based Evaluation of Eco-Friendly Products: The Mediating Role of Perceived Investment by the Firm

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## EXTENDED ABSTRACT

In this research, we propose a novel lay belief – consumers believe that firms invest significantly more resources to develop and manufacture eco-friendly products as compared to conventional products. Lay theories or lay beliefs reflect people's common sense understanding of how the world works (Furnham 1988; Haws, Reczek, and Sample 2016. Research shows that firms primarily price their products either based on the cost of manufacturing or on the basis of the perceived value of the products (Liozu et al. 2012). In the case of eco-friendly products, green firms and popular media typically highlight a cost-based approach as the justification for the higher prices (Kathy 2019; “Why are eco-friendly products so damn expensive?”, 2019). Common arguments include higher prices of sustainable raw materials, increased manufacturing cost due to small scale inefficient processes, and increased emphasis on fair wages (Kathy 2019). We argue that frequent exposure to high prices of eco-friendly products and such justifications for the high prices act as the source of the proposed belief.

If consumers hold such a lay belief, we expect consumers' green perception of the product (Gershoff and Frels, 2015), to be positively correlated with their perception of the resources invested by the firm in developing the product. Further, driven by the belief that green products need higher investment by the firm, we predict that consumers will perceive higher-priced products to be eco-friendlier as compared to lower-priced products, and this effect is mediated by the perceived investment of the firm in manufacturing the product. Formally stated,

*Hypothesis 1: Green perception of an eco-friendly product is positively correlated with the perceived investment by the firm in developing and manufacturing the product*

*Hypothesis 2: Consumers perceive higher-priced green products to be eco-friendlier as compared to lower priced green products*

*Hypothesis 3: The effect of price on the green perception of eco-friendly products is mediated by the perceived investment by the firm in manufacturing the product*

Trust plays a very important role in the evaluation of eco-friendly products as the 'green' claims of such products are tough to verify and have to be accepted at face value (Darby and Karni 1973; Nelson 1970). When consumers do not trust green claims of the products, perceived investment by the firm will have no impact on the green perception of the product. Hence, we expect the perceived investment by the firm to mediate the effect of price on the green perception only when consumers trust the green claims. Formally,

*Hypothesis 4: The mediation by perceived investment is moderated by the trust in the green claims*

In Study 1, all participants (N=106) saw the images and attribute details for two backpacks. One backpack was manipulated to be eco-friendlier than the other using product attributes and eco-certifi-

fication. Participants comparatively evaluated the perceived investment and green perception for both backpacks. Results indicated that the green perception is significantly and positively correlated with the perceived investment,  $r=0.639$ ,  $n=106$ ,  $p < .001$  (H1).

The objective of Study 2 was to test the predicted effect of the price of green perception (H2). Students (N = 151) from a large B-School volunteered to participate in this study. The study employed one factor (Price-level: High/Low) between-subjects design such that only the price of the target eco-friendly backpack differed in both the conditions. Results showed that participants in the high price-level condition ( $M = 4.91$ ,  $SD = 1.22$ ) rated the eco-friendly backpack significantly higher than those in low price-level ( $M = 4.50$ ,  $SD = .20$ ) condition,  $t(1,149) = 2.051$ ,  $p = .042$ .

The goal of Study 3 (N = 51) was to rule out the perceived-quality based alternative account. This study employed a 2(Price-level: High/Low) x 2(Perceived Quality: High/Low) mixed design wherein the price-level is manipulated within-subjects, and perceived quality is manipulated between subjects. Participants were asked to evaluate the green perception of both high and low-priced backpacks in high as well as low-quality conditions. Results revealed that the price level has a significant main effect on green perception ( $M_{High} = 4.726$ ,  $M_{Low} = 4.386$ ; Wilks' Lambda = 0.863,  $F(1, 49) = 7.808$ ,  $p = .007$ ) and perceived quality has no significant main effect ( $F(1, 49) = 1.686$ ,  $p = .20$ ), moreover there is no significant interaction ( $F(1, 49) = .539$ ,  $p = .466$  between price-levels and perceived quality.

Study 4 (N = 134) aimed to test the proposed moderated mediation model (H3 and H4). This study employed a 2(Price level: High/Low) x 2(Trust in green claims: High/Low) between-subjects design. Results revealed a significant indirect effect for price on green perception through perceived investment ( $b = .63$ ,  $SE = .24$ , 95% CI [.17, 1.12]). Further, a moderated-mediation analysis (Hayes process model 14) revealed a significant moderated mediation index ( $b = .70$ ,  $SE = .37$ , 95% CI [.02, 1.46]).

Finally, in Study 5 (N=136), we aimed to demonstrate how the proposed lay belief can lead to biased evaluation of greenness. This study used a 3-condition (inconsistent vs. consistent vs. control) between-subjects design. In the inconsistent condition high-eco-friendly backpack was priced lower than the low-eco-friendly backpack and vice versa in the consistent condition. No price information was provided in the control condition. The results revealed that the green perception scores for the high-eco-friendly backpack in the inconsistent condition ( $M = 5.23$ ,  $SD = 1.34$ ) were significantly lower than in the control ( $M = 5.82$ ,  $SD = 0.62$ ;  $t(68) = -2.308$ ,  $p = .024$ ) and consistent ( $M = 5.71$ ,  $SD = 0.72$ ;  $t(79) = -2.043$ ,  $p = .044$ ) conditions.

Our findings make two important contributions. First, we extend the understanding of how consumers evaluate the greenness of eco-friendly products (Gershoff and Frels 2015; Pancer et al. 2017; Lee et al. 2017) by identifying the role of price. Second, we build over the existing literature on consumer lay theories (Raghunathan et al. 2006; Haws et al. 2016) by identifying a novel lay theory and testing its causal impact on information processing and consumer judgment.

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