

'Warm' or 'Competent'? Consumers Stereotype Nonprofit and For-profit Firms

February 2010

In 2002, a promising new nonprofit that wanted to link school teachers in search of basic classroom supplies with willing donors nearly collapsed because of potential backers' concerns that despite having a worthwhile goal, the organization itself would not be able to execute its mission competently.

What a difference a few years can make. Donorschoose.org is thriving today. But the nonprofit's near-death experience was one of the reasons that compelled a team of academic researchers to explore how and why consumers, investors and other stakeholders pigeonhole a company using stereotypes, often to its detriment. The study — the first of its kind ever undertaken — reveals that consumers frequently assign stereotypical views to nonprofits, such as Donorschoose.org, that brand them as warm, generous and caring organizations, but lacking the competence to produce high-quality goods or services and run financially sound businesses. In contrast, for-profit companies are seen as more competent from a balance sheet perspective, but are not necessarily socially aware.

The researchers — Jennifer Aaker of the Stanford Graduate School of Business; Kathleen D. Vohs of the Carlson School of Management at University of Minnesota, and Cassie Mogilner, a Wharton professor say showing that customers do indeed stereotype firms is important in today's operating environment, where nonprofits are competing increasingly against for-profits to promote their goods or services in areas such as health care and education, and where for-profits are ramping up their corporate social responsibility budgets and community-related PR exercises in a bid to convey friendlier, more caring images. The research paper, titled "Non-Profits Are Seen as Warm and For-Profits as Competent: Firm Stereotypes Matter," will be published in a forthcoming issue of the *Journal of Consumer Research*.

"We found that competence is what really drives a consumer's intention to purchase," says Mogilner. "For nonprofit firms stuck with the stereotype of being warm but not particularly competent, anything that boosts their perceived competence will help them survive in the marketplace."

Fight Poverty, Make a Profit

The trio undertook the study because of the increasing number of companies that are seeking to incorporate a social mission into their business strategies, for reasons that range from old-fashioned altruism to an interest in positive brand-building. She mentions search-engine giant Google, which in 2005 launched its philanthropic arm Google.org with a \$1 billion commitment to aid charities promoting green causes and fighting poverty, and whose corporate motto for years was, "Don't be evil."

"We were becoming interested in the growing domain of these socially conscious for-profits, and we were wondering if the consumers' perceptions of these organizations would play into their subsequent behavior," Mogilner says.

At the same time, the researchers were looking at the growing presence of the nonprofit sector, which employs approximately 15 million people in the U.S. alone, according to the General Accounting Office. Nonprofits are increasingly important in sectors that were once the sole domain of for-profits, such as health care, but little is known about how this affects consumers' buying patterns.

Marketing

Research by

Jennifer Aaker

General Atlantic Professor
of Marketing
Stanford Graduate School of Business

Kathleen D. Vohs

Associate Professor of Marketing
Carlson School of Management
University of Minnesota

Cassie Mogilner

Assistant Professor of Marketing
The Wharton School
University of Pennsylvania

"Non-Profits Are Seen as Warm and For-Profits as Competent: Firm stereotypes Matter," Jennifer Aaker, Kathleen D. Vohs, Cassie Mogilner," *Journal of Consumer Research*, forthcoming.

Reprinted from Knowledge@Wharton
February 03, 2010

Executive Summary

Consumers frequently assign stereotypical views to nonprofits, categorizing them as warm, generous and caring organizations, but assuming their business abilities will be less competent than their for-profit peers'. In contrast, for-profit companies are seen as more competent from a balance sheet perspective, but are not necessarily socially aware. These stereotypes affect consumer spending, with potential consumers less likely to engage in commerce with the non-profits they believe are not strong business organizations.

■ While warmth is an important attribute in terms of how they are perceived, for non-profits the perception of competence is actually paramount when it comes convincing customers to engage in commerce with them.

■ For-profits can benefit from being seen as more in tune with social needs than their competitors. However, they need to be mindful that any social mission they become involved in should resonate in some way with their product.

■ Non-profits need to work to build consumer confidence that they are well run businesses. One possible vehicle would be to win approval of mainstream business publications.

There has been extensive research into stereotypes of people — based on factors such as race, gender or even height — but Aaker, Vohs, and Mogilner were surprised to learn that no studies are known to have been conducted on whether consumers categorize companies the same way. Central to the study was examining whether consumer spending habits are affected by preconceived views about an organization — based solely on whether it is a nonprofit or a for-profit — and not by specific knowledge about a firm's performance or reputation.

Needy, Not Greedy

The initial hypothesis was that people would indeed form stereotypes about firms, just as they do about people. Aaker, Vohs, and Mogilner were particularly interested in how consumers view for-profits and nonprofits in terms of two key attributes: warmth and competence. "Between people, assessments of warmth are established before competence," said Mogilner. That's evolutionary. Since the early days of man, people have needed to determine whether another person is a friend or foe "before determining how to engage."

To test this, the researchers hired students from Stanford University to take part in what was presented as a product study for new computer carry-all bags being marketed by Mozilla, a web browser company which, like Google, has both a for-profit and a nonprofit status. The students were asked to rate Mozilla as a company; on some questionnaires, the company was identified as Mozilla.com to suggest the for-profit entity, while on others as Mozilla.org, the nonprofit entity.

As the researchers predicted, the participants' answers indicated that they thought the nonprofit was a "warmer" operation — specifically, more "needy" and less "greedy" — than the for-profit. However, the real challenge for nonprofits, according to the authors, is to understand that while warmth is an important attribute in terms of how they are perceived, the perception of competence is actually paramount when it comes to guiding action. "In our studies of firms, perceived competence predicted global endpoints (e.g., willingness to buy) better than perceived warmth," the authors write in the paper. "In this regard, our work represents an intriguing departure from work on perceptions of humans" — which has demonstrated that warmth trumps competence when it comes to approachability.

Another unexpected point was the extent that participants formed opinions based solely on a nonprofit or for-profit's Internet domain name. "The existence of dot-com and dot-org domain name endings offer consumers an immediately knowable guide as to whether an organization is for- or non-profit," the researchers write. "Thirty years ago, consumers did not have such a cue to use. With the Internet, they now do."

Why do these different perceptions exist? One underlying factor may be the way people stereotype the individuals who work at a particular organization — and then in turn extend that stereotype to the entire entity. The authors note that other research suggests "for-profit executives are often promoted because they have shown competence and managerial skill, whereas executives in nonprofits are promoted because they have shown commitment to the social good of the organization." What's more, not as many for-profit employees as nonprofit employees have reported in other research that they are more likely to be promoted because their bosses like them personally.

A Key to Customer Credibility

Aaker, Vohs, and Mogilner were also interested in finding out whether a nonprofit can improve how its competence is perceived, a factor critical in product selection.

The participants were shown a product — eco-friendly laptop carriers from an outfit called World of Good, which refers to itself as an online marketplace for “people positive” and “eco-positive” products. Some participants were told World of Good was a nonprofit, while others were told it was for-profit. Everyone then read a positive review of the company — that it “gives shoppers who care about making a difference access to great products that help people and help the planet” — but some were told the review was published in *The Wall Street Journal*, a highly credible source of information, while others were told it was from *The Detroit Free Press*, a somewhat less mainstream business publication. The positive reviews increased the impression of competence for World of Good among the participants who thought it was a nonprofit, and the increase was the greatest when the participants thought the review appeared in *The Wall Street Journal*.

The authors say more research is needed to determine the best ways that nonprofits can overcome stereotypes that they are “needy” or less competent, and what role endorsements, sponsored events or branding can play. These factors are critical for nonprofits, they write, “particularly in light of the fact that when companies are admired, consumers often become more loyal.” Based on the results of the study, Mogilner suggests that one way for new non-profits to ensure positive customer perceptions about them is to seek positive coverage from authoritative mainstream media outlets.

In their research paper, the authors cite the success of HopeLab Foundation, a nine-year-old, California-based nonprofit that develops state-of-the-art products to improve the lives of young people with cancer or other serious illnesses. They write that HopeLab “combines rigorous research and data-driven approaches with the social cause of fighting cancer,” which in turn promotes a strong image of competence even as it acts for the social good.

Another area needing more research is on the other side of the equation: How for-profit companies — which are perceived as skilled in making and marketing products — can improve their reputations for being warm and caring, attributes that could well give them a competitive advantage over rivals that are viewed as less socially concerned. But for-profits need to be mindful that any social mission they become involved in should resonate in some way with their product. For example, it makes sense for a company like Apple or Microsoft to promote computer access in underprivileged areas. “There needs to be a fit between ‘brand essence’ and the social venture that they’re supporting,” Mogilner said.

“The insights that nonprofits should gain is [whether] they are hindered by the baseless misperception, perhaps, of incompetence,” Mogilner says. “With that awareness, they can take measures that will increase their perception of competence and enhance consumers’ admiration and willingness to buy.”