

**iLUminate Blog Transcript: Ludovica Cesareo on Moral Disengagement and Counterfeit Luxury Goods**

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- JACK CROFT: 00:18 Welcome. I'm Jack Croft, host of the iLUminate podcast for Lehigh University's College of Business. Today is December 3rd, 2024. And with the holiday shopping season already in full frenzy, we're talking with Ludovica Cesareo about her recent study published by the Journal of the Association for Consumer Research titled Knowledge, Morality, and the Appeal of Counterfeit Luxury Goods. Dr. Cesareo is an assistant professor of marketing in Lehigh's College of Business and is an expert in consumer behavior with luxury and counterfeit luxury goods, ethical decision-making, aesthetics, and emotions. From street corners in New York City and other major cities around the globe to countless internet sites, knockoffs of luxury goods are seemingly everywhere, especially this time of year. You've been studying counterfeit fashion and high-end luxury goods for several years now. What are some of the main problems those fake products create for manufacturers, retailers, consumers, and society at large?
- LUDOVICA CESAREO: 01:28 Yeah, so many problems. I think it would be important for our listeners just to define what a counterfeit good is, just so we're all on the same page. So counterfeit goods are those that violate someone else's legally registered intellectual property rights, whether it's a trademark, a copyright, or a patent. So essentially, what a counterfeit is is a replica or a knockoff of a branded product that is sold illegally, that is produced and sold illegally, whether, as you were saying, on the streets or on replica or auction websites online, by sellers that effectively don't have the right to use that brand or that logo. Counterfeiting is also a booming industry. Of course, as you were saying, with the holidays coming up, certainly there's seasonality in sales of counterfeit goods. Though it is a growing trend, the latest estimates say that the counterfeiting industry will be worth \$1.79 trillion by 2030 and that it's just expected to keep increasing until then faster than the global economy is going to grow in the same time period. So it's really a scary and booming phenomenon, and you can imagine that there's negative consequences, not just for society at large, but also for the brands, right, for the manufacturers themselves in terms of reduced sales, lost revenues and profits. But there's also intangible damages to their brand, especially in the domain of luxury goods, which is what I study. Luxury is built on scarcity and exclusivity and ephemerality. And so these replicas, these knockoffs available everywhere, whether in the physical or digital world, certainly reduce the luxuriousness of the brand itself.
- CESAREO: 03:20 And then, of course, there's costs involved in fighting counterfeits. Corporations spend millions of dollars every year to protect their brands, both offline and online. So that's the damage to brands and manufacturers and retailers. Then of course, there's the people who make the counterfeit goods, and you can imagine this is associated with sweatshop labor and criminal activity. Most counterfeits are made in China and in Hong Kong and in Taiwan, and then they're exported in the rest of the world. And then, of course, there's damages for consumers, not just because they lose trust in the brands, but also because counterfeits are very dangerous. You may not think that a counterfeit of Louis Vuitton is dangerous, but every industry and

every product in the world is counterfeited, including pharmaceuticals and automotive or just replacement parts, and so you can imagine that those really pose a real threat to consumer safety and can cause real harm.

CROFT: 04:19

Now in your recent study, which was co-authored I should mention with Silvia Bellezza of Columbia Business School, you set out primarily to answer one seemingly straightforward question, which is why do some consumers, while acknowledging the immorality of counterfeiting, still have positive predispositions toward such fake products? And I'm curious, what led you to focus on that question?

CESAREO: 04:47

As you were saying, I've been studying counterfeits for over a decade now. And to me, it's always been a conundrum. Why do consumers like and purchase something that they know is illegal, not only illegal, but also unethical? And as I was thinking about this question, two possible answers came to mind. The first is the signaling component, and probably the most obvious answer too, which is counterfeits are knockoffs of legitimate luxury products and brands. Luxury is purchased to signal something about yourself to others, to signal social status. And so to the unsavvy eye, right? Counterfeits serve the same purpose. And so with Silvia, my co-author at Columbia University, Silvia Bellezza, we started wondering, well, sure, to the unsavvy eye, counterfeits serve the same purpose, but what about to the savvy consumers? So that was part of what got our wheels moving. And then the second part had to do with the immorality or unethicality of it. If you think about consumers in general or individuals, individuals carry out so many immoral acts knowing that they're wrong and they have coping strategies to rationalize their behavior. And so why do they still engage in those behaviors? And so that's where we started thinking about this psychological mechanism called moral disengagement. And so these two components, the signaling component, being savvy or not, and this rationalizing of an unethical act is where this paper stems from.

CROFT: 06:16

So it'd probably be helpful first to delve into this construct of moral disengagement. It's not a term I'm familiar with before reading your study. So what is it and how and why do people morally disengage from what would be considered immoral behavior?

CESAREO: 06:36

Yeah. Well, I think even though you may have not been aware of the term, I'm sure everybody has engaged in moral disengagement before. So it was first theorized by Albert Bandura, who was a psychologist back in 1991 as part of social cognitive theory. And so moral disengagement is this psychological process that allows individuals to behave in a way that they know is morally wrong. So moral disengagement is a way to redefine, justify or excuse immoral behavior to make it appear more ethical and acceptable. And Bandura theorizes that there's different ways in which consumers can morally disengage. And for the sake of our chat and the research that I carried out on counterfeit goods, there's really three different paths that consumers can morally disengage when it comes to counterfeit. The first one is moral justification. So you justify your purchase of counterfeits, for example, due to a situational factor or because you are unable to afford the real thing. The second process is called diffusion of responsibility. So if you believe that counterfeiting is socially acceptable, right, you say, "Well, everybody buys counterfeits," then that leads consumers to have more positive responses to counterfeits and like them and purchase them more. And then the third process is called distortion of the consequences. So you justify purchasing a counterfeit now with the intent to

purchase an original in the future, or you just ignore the negative effects of counterfeiting on original brands.

- CROFT: 08:08      Now, is counterfeiting one of those things that a lot of people tell themselves, I won't say they necessarily actually believe it, but tell themselves, "Well, it doesn't harm anybody."
- CESAREO: 08:21      Definitely. Definitely. And I think that's especially true with luxury goods, right? They don't see an immediate victim, right? And so they believe these corporations have a lot of money, and they charge these exorbitant prices for their products, and so they think, as a strategy to morally disengage, they're like, "Well, nobody's actually getting hurt." When in reality, those brands invested millions of dollars and energy and effort to come up with those designs and those patterns. And some of these brands are historic, right? They've been around for hundreds of years. And so just for someone to just take all that and knock it off and sell it at a fraction of the price clearly has consequences for those brands.
- CROFT: 09:08      Yeah, and I think that leads us to the other kind of key terms here where you talk about knowledge, both subjective and objective, and within the context of how knowledgeable consumers actually are about a certain product category, such as, in this case, luxury goods. So how do you define those terms? And I'm also curious, how do you measure that knowledge? Because it would seem that could be a bit tricky.
- CESAREO: 09:37      Oh, absolutely. Well, so knowledge in a field of consumption is the amount of domain-specific information that the consumer acquires through learning and involvement, right? And there's two types of knowledge. Subjective knowledge is the perception of what a consumer knows about the consumption domain. So it's essentially what I think I know about this product domain, and this one is easier to measure because it's through self-reports. So you can ask consumers, how knowledgeable do you think you are? And it's a pretty straightforward way of measuring their perception of how knowledgeable they are. The other type of knowledge is what we call objective knowledge, which is what consumers actually know about a product category or domain, and it's stored in memory. And this is harder to measure because we measure it through what we would call objective tests. And so these tests need to be, sorry for the repetition, but tested, right, to make sure that they're valid, that they are actually measuring what they think they're measuring. And so objective tests measure what consumers actually know about a domain. And when we talk about the study, they'll tell you a little bit of how we measured subjective and objective knowledge. But so in our study, we were specifically interested in subjective knowledge in the domain of fashion and luxury goods, so how consumers self-assess expertise in these domains, so how knowledgeable do I think I am about high-end leather goods and accessories.
- CROFT: 11:04      Let's get to then kind of the overarching finding. You did four studies that you conducted as part of this that examined how receptive consumers with the high or low-knowledge of luxury goods would be toward fake products, how positively or negatively they felt about those products. So what did you find overall, kind of the totality of the four studies?
- CESAREO: 11:30      The big takeaway is that low-knowledge consumers, so those who don't know a lot or don't think they know a lot about fashion and luxury goods, like counterfeit more than high-knowledge consumers, and the reason is because they are more likely to

morally disengage. So they are less likely to view counterfeits through a moral lens, and thus they have these more favorable predispositions towards counterfeits. And so how we came to this conclusion is-- I'll tell you in a second more about the studies, but going back to the literature, we know that knowledgeable individuals tend to make more moral decisions because they have more organized knowledge than novices and they know what is correct and ethical and the best course of action, and there's tons of evidence of this in different literature streams, whether it's marketing and sustainability and organizational behavior. And then low-knowledge consumers, if we look at the fashion and luxury goods domain, there's research that shows that these consumers don't have the knowledge to detect subtle product nuances. So they overvalue loud characteristics such as logos, price, or the status of the user. And so because counterfeits send a signal that the luxury product is worth imitating, this signal is more impactful for the low-knowledge versus the high-knowledge consumers. So those were kind of the hypotheses that we had going into the studies. And then as I mentioned earlier, indeed, that's what we find, that these low-knowledge consumers just like counterfeits more because they're more likely to morally disengage.

CROFT: 13:03

One interesting thing I had noticed in the study, you did some interviews, which you described as a series of semi-structured interviews with luxury brand managers. And I was kind of fascinated by what their impression of how knowledgeable their customers were. Could you talk about that a little?

CESAREO: 13:27

Yeah. So surprisingly, we did these interviews with managers at Louis Vuitton and Moncler and Ralph Lauren. And essentially, they agreed that the majority of their consumers are low-knowledge in the domain of fashion and luxury good, meaning that they are aware of the prestige of the brands that they're purchasing, but they're not real connoisseurs in the history or the heritage or the craftsmanship, which you would think is surprising, right? Given the price, you would imagine that these consumers know more about the brand than they actually do. And so I think that really helped us structure our studies in a way that could look at these specific aspects, so whether consumers were aware or not, and we can talk in a minute about how we went about measuring and manipulating knowledge. But we just thought it was so interesting that even managers of high-end luxury brands know that their consumers are low-knowledge or that the majority of them are low-knowledge, right? They're just interested in the signaling component of their products rather than the actual quality and craftsmanship and history of the brand itself.

CROFT: 14:33

Each of the four studies looked at different aspects of the overall question. So without getting too deeply into all the real nitty-gritty details, if you could talk about each of the four studies and what you've learned from them.

CESAREO: 14:52

Yeah, sure. So the first two studies, we were looking at what we would call the main effects. So looking at how knowledge influences liking of counterfeit goods. And so in study 1A and 1B, we manipulated knowledge in study 1A, and we measured knowledge in study 1B. And to manipulate knowledge, we had to vary the difficulty of the fashion and luxury goods questions that participants were answering. And so to participants, to make someone feel as if they're high-knowledge, we gave them easier fashion questions. And to make someone feel as if they were low-knowledge, we gave them harder fashion questions. And even just that subtle manipulation shifted how knowledgeable they thought they were about fashion and luxury goods. And then for

the second study, we wanted to measure knowledge, but we still needed a spectrum, right? We wanted participants who knew a lot and participants who didn't know much, and so what we did is that we changed the sample. So half of the sample were students in a fashion club, while the other were general students who came to the lab. And so you can imagine that the students in the fashion club had higher subjective knowledge than general participants who would come to the lab. And so in those studies and the basic scenario they were all exposed to after the knowledge manipulations or measurement was we told them, "Imagine you own this luxury product." We used various brands from Louis Vuitton to Rolex to Chanel to Hermès, and then we told them, "Imagine you're walking down the street and you see a stand selling the exact version of your brand or of your product in a counterfeit version," and we asked them, "How much do you like this product?" And so interestingly, in these first two studies, we established that the lower knowledge consumers are, the more likely they are to like that counterfeit product. So those are the first two.

CESAREO: 16:39

Then we had to understand why while we're looking at the process. And so in study two, it was a similar setup. So we manipulated knowledge in the same way we did before with the difficulty of the questions, and then we measured moral disengagement. So we asked consumers how likely they were to engage in this moral disengagement process, looking at the three components we talked about before, right? So moral justification, diffusion of responsibility, and distortion of consequences. And indeed, we find that low-knowledge consumers like counterfeits more because they're more likely to moral disengage. And then in the last study, we used what we call a moderation of process design, where you manipulate not just knowledge, but also moral disengagement. So we tell consumers or half of the consumers that counterfeiting is not acceptable, right? It's an unacceptable practice from a moral standpoint, and we explain why. Well, in the other condition, we tell them, "Well, everybody does it." So we make it seem as more morally acceptable. And what's interesting and where I think then the interesting implication for managers comes in is that when we manipulated moral disengagement, low-knowledge consumers in the high moral disengagement condition liked counterfeits more than the participants in the low moral disengagement condition, meaning that low-knowledge consumers have a malleable morality. And so I think that's interesting from a managerialist standpoint because it means that if you teach consumers about the negative consequences of counterfeits and you make them see the immorality of it, then they're less likely to actually like those goods.

CROFT: 18:20

So what are some of the main takeaways for those marketers and brand managers from your study? You just talked about teaching consumers about moral disengagement, but what are some of the practical ways that that could actually be accomplished?

CESAREO: 18:38

Based on the findings of our studies, we need to distinguish in markets that have predominantly low versus high-knowledge consumers. So in markets with low-knowledge consumers, the results of this last study I mentioned really helped inform us into how changing the perception of morality could be an effective way to reduce liking of counterfeits. And what I mean by that is, for example, creating advertising or communication campaigns, especially by governmental agencies that really highlight the immorality and the illegality of purchasing counterfeits. And there are some really nice examples of agencies doing so in the past. In the U.S., for example, the National Crime Prevention Council and the USPTO [United States Patent and Trademark Office]

did a nice campaign called Go for Real that was targeted at young people, teenagers, young adults in their 20s and 30s. And they used a mascot called McGruff the Crime Dog. And basically, the mascot explained why you should not buy counterfeits, why they're dangerous, how do you spot them, especially online, and what are the negative consequences for businesses. In Japan, there was a similar campaign by the Japanese patent office called We All Otter Be Against Counterfeits. So there was an otter that was the mascot very similarly explaining. So those are nice ways in which governmental agencies backed by brands can help instruct and educate consumers who don't know a lot about the negative consequences of counterfeits. And so I think those are some ways that brands can target low-knowledge consumers. But on the other hand, there's also something to be said about markets with high-knowledge consumers, right? Even though these consumers know a lot, it's still important that they maintain that level of knowledge in order to not like counterfeits in the future. And so one way in which brands can do that is certainly working on their educational elements, so explaining the brand history, the craftsmanship.

CESAREO: 20:36

But one interesting ways in which brands have done so is by creating shows or exhibitions or permanent museums for their brands. I can think of Louis Vuitton or Gucci and Ferrari. They've all done so. And so, for example, for the 200th year anniversary of the brand, Louis Vuitton did this traveling exhibit called 200 Trunks, 200 Visionaries: The Exhibition, where basically consumers would experience different versions of the iconic Louis Vuitton trunk because that was the first product that Louis Vuitton ever made. It was a trunk, like a big suitcase to travel back when we had carriages. And it was a really interactive learning experience about how each trunk is made, the craftsmanship, the history. And so that really educates consumers, and it deepens their knowledge and involvement, and so it can change their reaction to counterfeit goods.

CROFT: 21:26

On the flip side, are there takeaways for consumers who either may not have given a lot of thought to the issues involved in buying counterfeit luxury products or even have thought about it and just decided, "Well, everybody does it and I can't afford the real thing, so," or whatever the reason is, but I'm going to go ahead and buy it. And this time of year, the main question, is that going to land them on Santa's naughty list?

CESAREO: 21:54

[laughter] Yeah. So I think, as Socrates famously said, "I know that I know nothing." And so I think that's true for all consumers, not just with counterfeits, right, but when purchasing products in general. I think as consumers, we need to be a little more critical of our belief and our knowledge about the products and the brands that we buy and just be curious and eager to learn more. In the domain of counterfeits, I definitely think that consumers need to think more about their actions and how there are real consequences. It may not be to them immediately, but it is for businesses, for society in general. And so I think definitely, like you were saying, buying counterfeit goods will land you on Santa's naughty list. And so I would highly caution consumers to think twice next time before buying counterfeit goods.

CROFT: 22:42

Ludovica, I'd like to thank you for being with us again on iLLUminate.

CESAREO: 22:46

Jack, thank you so much. It was great to be able to share findings from my latest research.

CROFT: 22:51

Great. And I wish you happy holidays and may all your gifts be for real.



CESAREO: 22:58

[laughter] You too.

CROFT: 22:59

Okay. I'd like to once again thank my guest, Ludovica Cesareo. In addition to the Journal of the Association for Consumer Research, her research has been published in such other prominent journals as the Journal of the Academy of Marketing Science and the Journal of Consumer Marketing and Business Horizons. Her work has also been featured in prominent media from the Wall Street Journal to the BBC, from Forbes to Philadelphia magazine. This podcast is brought to you by iLLUminate, the Lehigh Business blog. To hear more podcasts featuring Lehigh Business thought leaders or to follow us on social media, please visit us at [business.lehigh.edu/news](http://business.lehigh.edu/news). This is Jack Croft, host of the iLLUminate podcast. Thanks for listening. [music]