The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/0309-0566.htm

EJM
50,5/6

Received 20 May 2015
Revised 17 September 2015
Accepted 26 November 2015

Marketing spending, firm visibility, and asymmetric stock returns of corporate social responsibility strengths and concerns

Hannah Oh
University of California, Irvine, California, USA, and School of Business, University of Texas, Brownsville, Texas, USA
John Bae
University of California, Irvine, California, USA, and University of Texas Rio Grande Valley, Brownsville, Texas, USA
Imran S. Currim
University of California, Irvine, California, USA
Jooseop Lim
John Molson School of Business, Concordia University, Montreal, Canada, and
Yu Zhang
China Europe International Business School, Shanghai, China and University of California, Irvine, California, USA

Abstract

Purpose – This paper aims to focus on the unique goal of understanding how marketing spending, a proxy for firm visibility, moderates the effects of corporate social responsibility (CSR) strengths and concerns on stock returns in the short and long terms. In contrast to the resource-based view (RBV) of the firm, the visibility theory, based on stakeholder awareness and expectations, offers asymmetric predictions on the moderation effects of marketing spending.

Design/methodology/approach – The predictions are tested based on data from KLD, Compustat and Center for Research in Security Prices from 2001-2010 and panel data based regression models.

Findings – Two results support the predictions of the visibility theory over those of the RBV. First, strengths are associated with higher stock returns, for low marketing spending firms, and only in the long term. Second, concerns are associated with lower stock returns, for high marketing spending firms, also only in the long term. A profiling analysis indicates that high marketing spending firms have high R&D spending and are more likely to operate in business-to-customer than business-to-business industries.

European Journal of Marketing
Vol. 50 No. 5/6, 2016
pp. 838-862
© Emerald Group Publishing Limited
0309-0566
DOI 10.1108/EJM-05-2015-0290

This paper is based on Hannah Oh's dissertation completed at UCI. The work began when John Bae was a PhD student at UCI. This paper is supported by the Dean's office of the UCI Merage School of Business.

www.m

Practical implications – The two findings highlight the importance of coordination among chief marketing, sustainability and finance officers investing in CSR and marketing for stock returns, contingent on the firm's marketing and R&D spending and industry characteristics.

Originality/value – This paper identifies conditions under which CSR is and is not related to stock returns, by uniquely considering three variables omitted in most past studies: marketing spending, CSR strengths and concerns and short- and long-term stock returns, all in the same study.

Keywords Corporate social responsibility, Stock market returns, Marketing spending

Paper type Research paper

> "Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long-term success". William Clay Ford Jr. Executive Chairman, Ford Motor Company.

Reputation Institute's (2013) Global RepTrak® reports that the top 100 US firms spend on average upwards of $50m a year on corporate social responsibility (CSR). IEG (2012), a sponsorship consultancy, estimates that cause-marketing sponsorships reached $1.7bn in 2012 in North America alone, and this investment will increase in 2013. In addition, larger number of firms' annual reports and corporate websites focus on CSR efforts. Nielsen's (2013) Consumers Who Care study reports that 50 per cent of respondents worldwide are willing to reward firms that give back to society. Although corporate and consumer attention to CSR has increased over time, the relative attention paid in the CSR literature to how marketing affects the relationship between CSR and stock market returns is scarce. In particular, to the best of our knowledge, there is little if any attention on how marketing spending, a proxy for firm visibility, moderates the effects of CSR strengths and concerns on stock market returns in the short and long terms. This question is addressed by developing two unique and separate hypotheses on how marketing spending asymmetrically moderates the effects of CSR: strengths and concerns on stock market returns. The question we address is important for chief marketing, sustainability and finance officers (CMOs, CSOs and CFOs), who must coordinate CSR and marketing investments, given stakeholders' expectations, to create CSR strengths and mitigate concerns for higher stock returns.

Most studies on the relationship between CSR and corporate financial performance (CFP) appear in the accounting, economics, business, finance, management and strategy literatures. The majority of studies find a positive relationship (Bénabou and Tirole, 2010; Choi and Wang, 2009; Derwall *et al.*, 2005; Graves and Waddock, 1994; McWilliams and Siegel, 2000; Mitchell *et al.*, 1997; Moskowitz, 1992). However, a number of studies find no relationship (Alexander and Buchholz, 1978; Aupperle *et al.*, 1985; Cochran and Wood, 1984; Coffey and Fryxell, 1991; McWilliams and Siegel, 2001; Servaes and Tamayo, 2013; Ullmann, 1985; Waddock and Graves, 1997). For example, Ullmann (1985) argues that "there are so many intervening variables that no relationship can be found". Many studies find a negative relationship (Aupperle *et al.*, 1985; Bragdon and Marlin, 1972; Hillman and Keim, 2001; Jensen, 2002; McWilliams and Siegel, 1997; Milton, 1970; Vance, 1975; Waddock and Graves, 1997). Advocates of neoclassical economics (Milton, 1970) believe that CSR contributes to firms' costs over revenues and thus negatively impacts financial performance.

Scholars have suggested that the relationship between CSR and financial performance is unclear partly due to methodological reasons, in particular omitted

المنارة للاستشارات

www.m

variables (Aupperle *et al.*, 1985; Cochran and Wood, 1984; Ullmann, 1985). In this study, we propose a conditional approach, i.e. we investigate boundary conditions for the relationship, using three variables:

(1) CSR strengths and concerns;

(2) high and low marketing spending; and

(3) short- and long-term effects, omitted in many past studies, because consideration of these variables has the potential of explaining why certain studies find a positive relationship while others find the opposite or no relationship.

Consequently, the main unique goal of this paper is to establish the asymmetric moderation effect of marketing spending on the relationship between CSR strengths and concerns and stock market returns, in the short and long-terms, across a large cross-section of US firms, industries and time period.

First, we focus on differences between CSR strengths and concerns. We ask if CSR strengths and concerns are associated with higher or lower stock returns in similar or different ways depending on the level of marketing spending. Strengths are defined based on CSR on a composite measure of seven dimensions: community, corporate governance, diversity, employee relations, environment, human rights and product, which cater to multiple stakeholders' needs. Concerns are based on corporate social irresponsibility on the same dimensions[1]. Prospect theory has established that losses loom larger than gains (Kahneman and Tversky, 1979), which suggests that the effects of CSR concerns on stock market returns may be different and perhaps larger than the effects of CSR strengths on returns. Prospect theory defines losses and gains relative to a reference point, which necessitates consideration of stakeholders' expectations of a firm's CSR strengths and concerns based on the firm's marketing spending and visibility. However, most prior studies have focused on an aggregated measure of CSR, which aggregates:

- strengths and concerns to create a single CSR construct; or
- CSR strengths only without considering concerns;

  There are a few studies which consider strengths and concerns separately (Chang *et al.*, 2014; Cho *et al.*, 2013; Erhemjamts *et al.*, 2013; Mattingly and Berman, 2006; Servaes and Tamayo, 2013; Vaaland *et al.*, 2008); however, these studies do not consider the effects of CSR strengths and concerns on stock market returns in the short and long terms, for varying levels of marketing spending[2]. Consequently, these studies are unable to determine whether and how marketing spending moderates the relationship between CSR strengths and concerns and stock market returns in the short and long terms. The moderation effect is separate and distinct from the main effect of CSR strengths and concerns on stock returns. Also, the results of the moderation effect allow us to test predictions of visibility theory and the resource-based view (RBV) of the firm to inform coordination efforts between CMOs, CSOs and CFOs. For example, if one does not consider the moderation effect, the implication is that CMOs, CSOs and CFOs can operate independently, i.e. CMOs can independently maximize firm visibility, CSOs can independently maximize CSR efforts based on the main effect of CSR and CFOs can independently determine and impose budgets. The presence of a moderation

المنارة للاستشارات
www.m

effect implies that the effects of CSR strengths and concerns on stock market returns depend on customers' expectations of firms' CSR strengths and concerns which are based on firms' marketing spending and visibility. Consequently, CMOs, CSOs and CFOs need to coordinate their efforts, i.e. CSR managers should build CSR strengths or mitigate concerns depending on the firm's marketing spending or the CMO's plans for such spending, and the CFO should be flexible with budgets based on CSR- and marketing-based strategic priorities, in specific ways that are elaborated on in the discussion section.

Second, we focus on firms with high and low marketing spending because we expect differences in visibility, stakeholder awareness of such firms and hence stakeholder expectations regarding firms' CSR strengths and concerns, which influence the impact of realized strengths and concerns on firm performance. Bowen (2000) provides a useful review of the management and strategy literature on how environmental visibility can be used to predict green organizational response because greater visibility exposes the firm to greater stakeholder pressures in the social system. In contrast, the RBV (Barney, 1991) does not consider differences in stakeholder expectations between high and low marketing spending firms, resulting in differing predictions of the moderation effect of marketing spending on the relationship between CSR strengths and concerns and stock returns. We investigate whether the moderation effect, in the short and long terms, follows the predictions of visibility theory or the RBV of the firm, i.e. whether the moderation effects are asymmetric or symmetric for the two groups of firms. Marketing spending is defined to capture a diverse set of marketing activities such as advertising, promotions and distribution, all of which contribute to firm visibility. Specifically, marketing spending is defined as the ratio of selling, general and administrative (SG&A) spending less research and development (R&D) spending to total revenue (Brower and Mahajan, 2013; Krishnan *et al.*, 2009; Mizik and Jacobson, 2007; Morgan and Rego, 2009). Although SG&A spending has limitations discussed later, two primary advantages over advertising spending are that SG&A spending is reported more frequently than advertising and includes other promotion or commercialization efforts, e.g. direct sales, distribution, market research, trade promotions and related activities, which are important in industries where commercialization is primarily accomplished through means other than advertising (Brower and Mahajan, 2013). Most prior studies on the effects of CSR on stock market returns have not allowed for differences in marketing spending across firms.

Third, we investigate short- and long-term effects of CSR strengths and concerns on stock returns because stock market payoffs for CSR efforts could take more than a year to materialize. Short- and long-term effects are defined based on cumulative stock returns in the next one and five years, respectively. Most previous studies use accounting-based measures based on operating or net income, cash flow, asset growth, etc., in contrast to stock returns, a market-based measure to capture firms' financial performance, which is less subject to managerial manipulation often present in accounting-based measures (Guney and Schilke, 2010). In addition, most previous studies do not consider long-term effects. Consequently, to the best of our knowledge, our study uniquely investigates the relationship between CSR and stock returns for all three largely

المنارة للاستشارات

www.m

omitted variables, in the same study, for a large cross-section of US firms, industries and time period.

Consequently, the conditional results, which demonstrate the importance of each of the three variables, support the predictions of visibility theory, i.e. the results establish the asymmetric moderation effect of marketing spending, and are unique from the results heretofore in any literature. We find that CSR strengths are associated with higher stock returns, only for low marketing spending firms in the long-term, while concerns are associated with lower stock returns only for high marketing spending firms in the long term. These results validate:

- the view of Schuler and Cording (2006) and Barnett (2007) that understanding the relationship between CSR and financial performance requires understanding not just how CSR creates but also does not create value; and
- theorizing by Neville *et al.* (2005) that the relationship between CSR and performance could be moderated by firm variables.

In addition, the results answer a call for a broadened perspective in empirical research to address CSR effects (Vaaland *et al.*, 2008). A profiling analysis reveals that high (low) marketing spending firms spend more (less) on R&D and are prevalent in business-to-customer (B2C) (business-to-business [B2B]) settings, permitting managerial targeting of coordination efforts between CMOs, CSOs and CFOs across firms, which we expand on in the discussion section.

Hypotheses

In this section, we develop three hypotheses, one on the relationship between CSR strengths and concerns and stock returns, i.e. the main effect of CSR strengths and concerns on stock returns. Strengths are considered separately from concerns following prospect theory. The second and third hypotheses are on how marketing spending asymmetrically moderates the main effect, i.e. the relationship between CSR strengths and concerns, and stock market returns. The first hypothesis on the main effect is consistent with the RBV (and transaction cost economics [TCE]) theories of the firm. The second and third hypotheses are based on visibility theory, which, in contrast to the RBV, offers differing predictions of the moderation effect of marketing spending.

Main effect of corporate social responsibility strengths and concerns on stock market returns

The hypothesis on the relationship between CSR strengths and concerns and stock returns is developed in two steps. First, we briefly introduce stakeholder theory including the associated underlying rationale for CSR. Second, we summarize the rationale for the relationship between CSR and stock returns from accounting, economics, business, finance, management and strategy and marketing literatures. The literatures other than the marketing literature rely on rationales related to the relationship between CSR and firm performance, while the marketing literature relies on rationales related to the relationship between CSR and its effects on customers' evaluations and responses. The two steps are used to collect all underlying rationales for the effects of CSR from a variety of theories suggested in different literatures.

Stakeholder theory. Stakeholder theory suggests that firms have relationships with many constituent groups (e.g. customers, employees and communities) other than just

www.m

shareholders (Freeman, 2010; Hildebrand *et al.*, 2011; Maignan *et al.*, 2005). In addition, these stakeholders both affect and are affected by the actions of the firm (Freeman, 2010). Jensen (2002) proposes the "enlightened value maximization" concept, arguing that shareholder value maximization is not incompatible with satisfying other stakeholders. He emphasizes *long-term* shareholder value maximization as the firm's primary objective and solution to the problems that arise from multiple objectives that accompany stakeholder theory (e.g. customers want low price and high quality; employees want high wages and high-quality working conditions; suppliers of capital want low risk and high returns; and communities want high charitable contributions and social expenditures by firms, etc.). Consequently when studying the effects of CSR strengths and concerns on stock market returns, we will consider:

- measures of strengths and concerns which are composites of seven dimensions related to *multiple* stakeholders' needs: community, corporate governance, diversity, employee relations, environment, human rights and product; and
- short- and *long-term* returns.

There are two broad perspectives that inform stakeholder theory, as it relates to financial performance:

(1) the RBV (Barney, 1991); and

(2) TCE (Williamson, 1975).

The RBV contends that a firm's ability to perform better than its competition and create value for shareholders depends on the unique interplay of human, organizational and physical resources over time. RBV scholars have studied intangibles such as technology, human capital, corporate reputation and organizational culture. Barney (1991) maintains that if these resources meet four criteria (valuable, rare, inimitable and non-substitutable), they can constitute a source of sustainable competitive advantage. Proponents of the RBV claim that CSR enables firms to achieve competitive advantage by boosting skills and financial performance. For example, good employee relations might enhance morale, productivity and satisfaction (Moskowitz, 1972).

The TCE view posits that firms reduce costs associated with contractual compliance with government regulation and union contracts by satisfying stakeholder demands. In other words, if a firm has developed a good reputation by satisfying stakeholder demands for CSR, the good reputation will extend to government regulators and employee union managers. The good CSR-based reputation will reduce the costs of satisfying their regulations and demands (contracts), because they believe the firm cares about its social responsibility and hence trust the firm. The end results of TCE and RBV theories are the same, i.e. either by decreasing costs or increasing returns, CSR is expected to be positively related with CFP. In addition, stakeholders may interpret that, because of superior management skill, firms' CSR efforts will cost less, not more (Alexander and Buchholz, 1978). McWilliams and Siegel (2001) contend that firms engage in CSR activities based on demand from stakeholders to increase economic efficiency. The gist of stakeholder theory is that superior management of various stakeholders' demands is important to accomplish higher CFP.

Rationales for corporate social responsibility. Advocates of the positive link between CSR and financial performance hypothesize three related advantages from engaging in

المنارة للاستشارات

www.m

CSR initiatives. First, investment in CSR is hypothesized to act as a source of competitive advantage (Porter and Kramer, 2006; Smith, 2003), and effective employment of CSR initiatives by managers can differentiate products and brands from their competitors (Smith and Higgins, 2000; Varadarajan and Menon, 1988). Thus, CSR is regarded as a form of strategic investment similar to R&D and advertising (Gardberg and Fombrun, 2006; McWilliams *et al.*, 2006). Second, Fombrun *et al.* (2000) posit that CSR activities act as a safety net to shield firms from random negative events. Godfrey (2005) suggests that CSR works as an insurance policy to shield firms from risks and creates positive "moral capital", which directly affect the market value of firms by improving employee morale and productivity. Third, CSR can provide better access to valuable resources (Cochran and Wood, 1984; Waddock and Graves, 1997), attract and hold quality employees (Turban and Greening, 1997), convey better marketing for products and services (Fombrun *et al.*, 2000; Moskowitz, 1972), grab unanticipated opportunities (Fombrun *et al.*, 2000) and gain social legitimacy (Hawn *et al.*, 2011).

The underlying rationale for CSR in the marketing literature is that CSR efforts facilitate development of marketing assets such as positive product evaluations (Brown and Dacin, 1997; Creyer and Ross, 1996; Ellen *et al.*, 2000), customer satisfaction (Daub and Ergenzinger, 2005), increased loyalty (Du *et al.*, 2007; Luo and Bhattacharya, 2006), willingness to pay premium prices (Bhattacharya and Sen, 2004), trust (Vlachos *et al.*, 2009), willingness to support firms committed to CSR (Barone *et al.*, 2000; Berger and Kanetkar, 1995; Creyer and Ross, 1996), willingness to donate to firms supporting non-profit organizations (Lichtenstein *et al.*, 2004) and decreased attribution of blame in the face of a crisis (Klein and Dawar, 2004). In a recent review of the relationship between marketing efforts (not CSR efforts) and assets, and stock market performance, Srinivasan and Hanssens (2009) link various marketing assets such as product evaluations, loyalty and prices, to stock market performance. The studies noted in the previous two paragraphs support a positive link between CSR and financial performance.

In contrast to the positive link, as noted earlier, advocates of neoclassical economics (Milton, 1970) believe in a negative link, i.e. CSR contributes to firms' costs over revenues and thus negatively impacts financial returns. Our hypothesis is based on the positive (negative) effects of CSR strengths (concerns) on stock returns because of the larger number of studies that support the positive view over the negative neoclassical view. Consequently, based on the rationales suggested in various literatures, we expect CSR strengths (concerns) to be positively (negatively) associated with stock market returns, i.e. a main effect of CSR strengths and concerns on stock returns (the positive and negative main effects of CSR strengths and concerns, respectively, on stock market return are depicted in Figure 1).

H1a(b). CSR strengths (concerns) will be positively (negatively) associated with stock market returns.

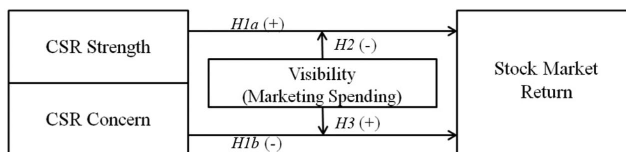

Figure 1.
Overview of hypothesized effects

www.m

Moderation effect of marketing spending on the relationship between corporate social responsibility strengths and concerns and stock market returns

In this section, we use visibility theory to develop two stakeholder expectations-based hypotheses for the moderation effect of marketing spending on the relationship between CSR strengths and concerns, and stock market returns, first for CSR strengths and subsequently for concerns. Visibility theory, defined based on the magnitude of a firm's marketing spending, is used to hypothesize that stakeholders will develop expectations of a firm's CSR strengths and concerns based on whether the firm is more or less visible (Bansal, 1996; Bowen, 2000; Fang and Peress, 2009; Pfarrer *et al.*, 2010; Rappaport and Flaherty, 1992). Expectations are important because (financial) performance will be dependent on the difference between realized strengths and concerns and expectations of strengths and concerns. In other words, for firms with higher visibility, stakeholders expect the firms to have CSR strengths and no concerns (after all the firms have resources to spend in marketing), while for firms with lower visibility, stakeholders do not expect firms to have CSR strengths. These expectations of strengths and concerns moderate stakeholder reactions or the effects of CSR strengths and concerns on stock market returns (Figure 1).

Corporate social responsibility strengths. Marketing spending, which comprises spending on products, promotions (e.g. advertising) and place (distribution), makes the firm more visible for the variety of stakeholders (Bansal, 1996; Fang and Peress, 2009; Pfarrer *et al.*, 2010; Rappaport and Flaherty, 1992). Lower marketing spending firms are less visible. We expect that lower visibility results in stakeholders having lower expectations that such firms will develop CSR strengths, and these expectations influence the effect that CSR strengths have on the firm's performance (Chiu and Sharfman, 2009; Dowling and Pfeffer, 1975). Dowling and Pfeffer (1975) suggest that firms that are "less in the public eye" are less likely to face legitimacy pressures from stakeholders to develop CSR strengths, than firms that are more visible. In addition, they suggest that organizations that are smaller, and organizations that receive fewer political and social benefits, tend to engage less in legitimate behavior. Chiu and Sharfman (2009) suggest that lower visibility demotivates managers to perform more socially responsible behaviors, because they are under less scrutiny by the firm's stakeholders and society, to be better corporate citizens. In other words, the lower the visibility and attention firms attract from society, the lower the legitimacy pressures and expectations of stakeholders regarding CSR strengths. Consequently, if lower visibility firms do develop CSR strengths, the observed strengths deviate positively from stakeholders' lower expectations of strengths; hence, CSR strengths are expected to be associated with higher stock returns. In contrast, higher marketing spending firms are more visible. We expect that higher visibility results in stakeholders having higher expectations that such firms will develop CSR strengths. Consequently, when higher visibility firms do develop CSR strengths, the observed strengths deviate less positively from stakeholders' higher expectations of strengths; hence, CSR strengths are less expected to be associated with higher stock returns. The negative moderation effect of marketing spending on the relationship between CSR strengths and stock market return is depicted in Figure 1. Consequently:

H2. The positive effect of CSR strengths on stock market returns will be greater for low (relative to high) marketing spending firms.

المنارة للاستشارات
www.m

H2, which relies on visibility theory, suggests a condition under which CSR strengths are less associated with higher stock returns, i.e. for high marketing spending firms. In contrast, the RBV of the firm suggests that high marketing spending is associated with greater firm resources, which generally enable greater competitive advantage through product differentiation, and hence higher stock returns (Barney, 1991). Consequently, the RBV of the firm suggests that the positive effect of CSR strengths on stock returns is greater for high marketing spending firms, i.e. the opposite effect hypothesized in *H2*.

Corporate social responsibility concerns. Higher marketing spending firms, as noted above, are more visible. We expect that higher visibility signals to stakeholders that the firm has greater resources to devote to CSR (Chiu and Sharfman, 2009; Dowling and Pfeffer, 1975), resulting in strengths rather than concerns. Sharfman *et al.* (1988) and Chiu and Sharfman (2009) suggest that the presence of greater (slack) resources allows the firm to make more discretionary investments which are often highly visible to stakeholders and media. Easley and O'Hara (2004) find that firms with lower costs of capital (i.e. greater [slack] resources) generally engage in more corporate disclosures. As slack (discretionary resource) levels increase, because of social contract-based ideas, organizations are expected to fulfill their obligations to society by allocating greater resources to CSR because stakeholders and society expect firms with higher resources to develop CSR strengths. Easley and O'Hara (2004) indicate that although greater (slack) resources allow firms to engage in more CSR, greater resources, in addition, are generally associated with more visibility. Consequently, when firms with greater resources, higher marketing spending and visibility develop CSR concerns, observed concerns will deviate negatively from stakeholders' expectations of strength; hence, concerns are expected to be associated with lower stock returns. The positive moderation effect of marketing spending on the relationship between CSR concerns and stock market return is depicted in Figure 1. In contrast to higher marketing spending firms, lower marketing spending firms are less visible. We expect that lower visibility signals to stakeholders that the firm has fewer resources to devote to CSR, and consequently is less likely to devote resources to CSR or develop CSR strengths. Consequently, when firms with lower marketing spending and lower visibility develop CSR concerns, observed concerns deviate less negatively from stakeholders' lower expectations of strength; hence, concerns are less expected to be associated with lower stock market returns:

> *H3*. The negative effect of CSR concerns on stock market returns will be greater for high (relative to low) marketing spending firms.

Similar to *H2*, *H3*, which also relies on visibility theory, suggests a condition under which CSR concerns are less associated with lower stock returns, i.e. for low marketing spending firms. In contrast, the RBV of the firm suggests that low marketing spending is associated with lower firm resources, which generally enable less competitive advantage through product differentiation, and hence lower stock returns (Barney, 1991). Consequently, the RBV of the firm suggests that the negative effect of CSR concerns on stock returns is generally greater for low marketing spending firms, as both CSR concerns and low marketing spending are indicative of lower firm resources, which generally enable less product differentiation and competitive advantage, i.e. the opposite effect hypothesized in *H3*.

المنارة للاستشارات
www.m

Model

Model to test hypotheses

The main model to test the effects of CSR strengths and concerns on stock market returns (*H1*) is:

$$\Delta TSR_{it+k|t} = \beta_0 + \beta_1 \Delta CSR^S_{it} + \beta_2 \Delta MKTG_{it} + \beta_3 \Delta(CSR^S_{it} \times MKTG_{it}) + \beta_4 \Delta CSR^C_{it} + \beta_5 \Delta(CSR^C_{it} \times MKTG_{it}) + \beta_{6t} YEAR_t + \gamma_j CONTROLS_{j,t} + \varepsilon_{it} \quad (1)$$

Where $TSR_{it+k|t}$, for k = 1 and 5, is the cumulative or total stock return for firm i in the next one and five years (TSR_1 and TSR_5); $\Delta TSR_{it+k|t}$ is the difference between total stock return for firm i in year t + k and t + k − 1; consequently, firm-fixed effects present in the level versions of Model 1 are not required in the difference versions; ΔCSR^S_{it} and ΔCSR^C_{it} are the differences between firm i's aggregate CSR strength and concerns, respectively, at time t and t − 1. We take first differences to address the correlated omitted variables problems in level-based regressions (Kimbrough and McAlister, 2009). The dependent variable used in this study is the total stock return:

$$TSR_{it+k|t} = \left\{\prod_{m=1}^{12} (1 + i_m)\right\} - 1 \quad (2)$$

Where i_m is the stock return for month m, in which m = 1 indicates the beginning month of year t and m = 12 indicates the last month of year k. Marketing spending, $MKTG_{it}$, as noted earlier, is defined as (SG&A − R&D)/asset following precedence in the marketing literature, i.e. studies by Mizik and Jacobson (2007) and Luo (2008). Firms communicate their CSR activities with stakeholders through various channels and advertising is only one of such channels. Consequently, the marketing spending measure is used, although imperfect, over the advertising spending measure, to capture a diverse set of marketing activities such as promotions and distribution.

To test *H1(a)* and *(b)*, we estimate Model 1 for the entire cross-section of firms and observe the signs and statistical significance of the parameter estimates of β_1 and β_4. If β_1 is statistically significantly higher than zero, CSR strengths are positively associated with stock returns, hence *H1* (a) is supported. If β_4 is statistically significantly lower than zero, CSR concerns are negatively associated with stock returns, hence *H1 (b)* is supported. *H2* and *H3* are not tested based on β_3 and β_5, respectively. For example, a negative (positive) β_3 cannot distinguish between CSR strengths being associated with higher stock returns for lower (higher) marketing spending firms, and CSR strengths being associated with lower stock returns for higher (lower) marketing spending firms. Similarly, a negative (positive) β_5 cannot distinguish between CSR concerns being associated with lower stock returns for higher (lower) marketing spending firms, and CSR concerns being associated with higher stock returns for lower (higher) marketing spending firms.

Consequently, to test *H2* and *H3*, the sample is separated into two groups, high versus low marketing spending firms based on the median marketing spending criterion, and Model 1 is estimated for each of the two sub-samples of firms to test the moderation effect of the level of marketing spending on the relationship between CSR strength (*H2*) and concerns (*H3*) on stock returns. If β_1 is statistically significantly

المنارة للاستشارات
www.m

higher than zero for low marketing spending firms and β_1 is insignificantly different from 0 for high marketing spending firms then CSR strengths are associated with higher stock returns for lower over higher marketing spending firms, hence *H2* is supported. Similarly, If β_4 is statistically significantly lower than zero for high marketing spending firms and β_4 is insignificantly different from zero for low marketing spending firms, then CSR concerns are associated with lower stock returns for high over low marketing spending firms, and hence *H3* is supported. Any potential loss in information due to grouping firms in high versus low marketing spending categories is compensated for by including the interaction terms of Model 1 in their continuous forms. Each estimation was conducted for ΔTSR_{t+1} or short-term and ΔTSR_{t+5} for long-term returns.

Data

Our database is obtained as follows: CSR strengths and concerns are obtained from the KLD Stats database provided by KLD Research and Analytics, Inc., a Boston-based investment research firm which tracks firms' CSR activities; marketing spending and other variables used as controls in Model 1 including variables used to profile higher marketing spending firms are obtained from Standard and Poor's COMPUSTAT database which is based on 10,000 filings of all publicly traded US firms; stock returns are obtained from University of Chicago's Center for Research in Security Prices (CRSP) which maintains stock market data for NYSE, AMEX and NASDAQ.

KLD Research and Analytics, Inc. provides annual data on a large cross-section of US firms, comprising multiple measures of strengths and concerns for each of seven CSR dimensions, community, corporate governance, diversity, employee relations, environment, human rights and products (Online Appendix Table). The ratings are determined by third-party raters, who have expertise in CSR, efforts and performance, however, they have no direct interest in the firms. Although the rating data are not based on general *consumer* opinion:

- our dependent measure is stock market return and *experts* opinions are an important determinant of stakeholders decisions;
- the advantage of KLD data is that its dimensions noted above encompass issues of interest to various stakeholders noted in the background section; and
- the expert-based ratings are expected to be more comparable across firms and time than consumer ratings.

Sharfman (1996) tested KLD data's construct validity and concluded that it is one of the best measures of CSR among other existing measures. KLD is a frequently referenced source of CSR in management and strategy literatures (Barnett and Salomon, 2012; Berman *et al.*, 1999; Chatterji *et al.*, 2009; Hillman and Keim, 2001; Johnson and Greening, 1999; Waddock and Graves, 1997).

Aggregated CSR strength and concern scores for firm i and year t are calculated following Kacperczyk (2009): $CSR^S_{it} = \Sigma^7_{d=1} CSR^S_{idt}$ and $CSR^C_{it} = \Sigma^7_{d=1} CSR^C_{idt}$, where d represents the seven dimensions in the KLD database: community relations, diversity, employee relations, corporate governance, environment, human rights and product. Summing strengths (concerns) across dimensions is consistent with stakeholder theory which refers to "general stakeholders" who comprise stakeholders with interests in different issues or dimensions (Daub and Ergenzinger, 2005; Maignan *et al.*, 2005). In addition, these stakeholders are not just

المنارة للاستشارات
www.m

concerned about issues, they are primarily interested but have secondary interests in other issues as well (Maignan and Ferrell, 2004). Later, in the results section, we consider each of seven dimensions separately to analyze whether one or more dimensions drive the results on *H1(a)*, *H1(b)*, *H2* and *H3*.

We merged data from KLD, COMPUSTAT and CRSP. Descriptive statistics are presented in Table I Panel A and a correlation matrix of variables used in model estimation is presented in Panel B. We began with 25,634 firm-year observations from 2001 to 2010 for CSR strengths and concerns obtained from KLD data. Taking the first difference of CSR strengths and concerns results in 20,155 firm-year observations. Combining these observations with COMPUSTAT data on marketing spending and taking first differences in marketing spending results in 8,314 firm-year observations. Taking first differences in control variables results in 8,230 observations. Finally, we add the short- and long-term stock market return variables from CRSP. Taking first differences of the short-term one-year cumulative stock return variable results in 7,726 firm-year observations, while taking the first difference of the long-term five-year cumulative stock return variable results in 4,153 firm-year observations.

Results

As noted earlier, effects of CSR strengths, *H1(a)*, and concerns, *H1(b)*, on stock returns are estimated using Model 1 and a panel regression approach. The results are presented in Table II. We use two sets of controls:

	Mean	SD	No. of firms available
Panel A: Summary descriptive statistics			
CSR strength	1.449	2.198	34,823
CSR concern	1.865	1.837	34,823
Marketing spending	0.242	0.202	14,841
Capital spending	0.048	0.059	31,482
Sales	4,589.245	14,688.497	32,460
Risk	0.218	0.191	32,342
Cumulative 1 year stock return TSR_1	0.113	10.156	32,392
Cumulative 5 year stock return TSR_5	0.604	1.932	19,549

	1	2	3	4	5	6	7	8
Panel B: Correlation matrix								
1. CSR strength	–							
2. CSR concern	0.324	–						
3. Marketing spending	−0.042	−0.169	–					
4. Capital spending	0.007	0.034	0.088	–				
5. Sales	0.452	0.486	−0.064	0.014	–			
6. Risk	0.030	0.094	−0.191	0.042	0.053	–		
7. TSR_1	−0.000	0.007	0.267	0.008	−0.002	0.036	–	
8. TSR_5	0.018	0.026	0.066	0.057	0.007	0.043	0.592	–

Table I. Data summary

المنارة للاستشارات

www.m

Table II. Regression results for the effects of CSR strength and concerns on stock returns

Explanatory variables	(1) Δ TSR_1	Δ TSR_5	(2) Δ TSR_1	Δ TSR_5	(3) Δ TSR_1	Δ TSR_5	(4) Δ TSR_1	Δ TSR_5
Δ CSR strength	0.02** (0.01)	0.05*** (0.02)	0.02** (0.01)	0.05*** (0.02)	0.02** (0.01)	0.05*** (0.02)	0.02** (0.01)	0.05*** (0.02)
Δ Marketing	1.31*** (0.16)	1.52*** (0.32)	1.48*** (0.16)	1.71*** (0.32)	1.49*** (0.16)	1.71*** (0.32)	1.33*** (0.16)	1.73*** (0.32)
Δ (CSR strength × marketing)	−0.01 (0.03)	−0.12* (0.07)	−0.01 (0.03)	−0.12 (0.07)	−0.01 (0.03)	−0.12 (0.07)	−0.004 (0.03)	−0.12 (0.07)
Δ CSR concern	0.01 (0.01)	−0.001 (0.02)	0.01 (0.01)	−0.004 (0.02)	0.01 (0.01)	−0.003 (0.02)	0.01 (0.01)	−0.003 (0.02)
Δ (CSR concern × marketing)	−0.03 (0.03)	0.03 (0.06)	−0.03 (0.03)	0.03 (0.06)	−0.03 (0.03)	0.02 (0.06)	−0.02 (0.03)	0.02 (0.06)
Δ CAPEX			0.11 (0.28)	1.29** (0.53)	0.12 (0.28)	1.30*** (0.53)	0.04 (0.28)	1.31*** (0.53)
Δ RISK			0.82*** (0.10)	1.16*** (0.20)	0.82*** (0.10)	1.16*** (0.20)	0.83*** (0.10)	1.16*** (0.20)
Δ SALES					−1.4E−05** (6.7E−06)	−2.3E−05** (1.1E−05)	−1.4E−05** (6.7E−06)	−2.3E−05** (1.1E−05)
Δ RND							1.35*** (0.30)	−0.18 (0.62)
Number of observations	7,803	4,187	7,726	4,153	7,726	4,153	7,726	4,153
R^2	0.33	0.42	0.33	0.42	0.33	0.42	0.34	0.42

Notes: ***, ** and * indicate 1, 5 and 10% confidence levels, respectively; year-fixed effects are included in each model

www.m

(1) financial (ΔCAPEX and ΔRISK), to control for effects of capital expenditures and risk on stock returns; and
(2) marketing (ΔSALES and ΔR&D), to control for effects of sales and R&D expenditures on stock returns.

Model 1 is estimated first without any controls, followed by the inclusion of financial and marketing controls. Strengths are found to be associated with higher stock market returns in the short term (ΔTSR_1; $p < 0.05$) and long term (ΔTSR_5; $p < 0.01$) whether we use controls (first row Table II). Consequently, *H1(a)* is supported. Concerns are not found to be associated with lower stock returns, either in the short or long terms (fourth row Table II). Consequently, *H1(b)* is not supported. A potential reason why *H1(b)* is not supported is due to aggregation error involved in combining samples on high and low marketing spending firms with differential effects of concerns on stock returns, which will be elaborated on in more detail when we present the moderation effect results. Incidentally, when we combine strengths and concerns in a composite measure of CSR effort, there is no relationship between CSR and stock market returns. A potential reason for this result is due to aggregation error involved in combining data on strengths and concerns when there are different effects of strengths, *H1(a)*, and concerns, *H1(b)*, on stock returns. The lack of a relationship between a composite measure of CSR effort and stock returns is interesting because it provides a potential explanation for why some studies (Alexander and Buchholz, 1978; Aupperle *et al.*, 1985; Cochran and Wood, 1984; Coffey and Fryxell, 1991; McWilliams and Siegel, 2001; Servaes and Tamayo, 2013; Ullmann, 1985; Waddock and Graves, 1997) may not find statistically significant effects of CSR on stock market returns when in fact there are latent effects, *H1 (a)*, in the data.

As just noted, CSR strengths are found to be associated with higher stock returns, while concerns are not found to be associated with lower stock returns, underscoring the relevance of considering strengths separately from concerns, i.e. adopting a conditional view when analyzing CSR effects on firm performance. Basically, the effects of CSR on stock returns are found to be asymmetric, for strengths and concerns. While support for *H1 (a)* is supportive of the RBV of the firm for CSR strengths, lack of support of *H1(b)* is not supportive of the RBV of the firm for CSR concerns.

To test *H2* and *H3*, Model 1 is estimated separately on two sub-samples of firm with low (Table III) and high (Table IV) marketing spending. Strengths are found to be associated with higher stock returns for low marketing spending firms in the long term ($p < 0.05$) (first row Table III for ΔTSR_5), while strengths are not found to be associated with stock returns for high marketing spending firms (fourth row Table IV). Consequently, the positive effect of CSR strengths on stock returns is found to be greater for lower (relative to higher) marketing spending firms, i.e. *H2* is supported. Support for *H2* is supportive of visibility theory over the RBV of the firm.

In contrast, concerns are found to be associated with lower stock returns in the long term, for high marketing spending firms ($p < 0.05$) (first row Table IV for ΔTSR_5). Concerns are not found to be associated with stock returns for low marketing spending firms (fourth row Table III). Consequently, the negative effect of CSR concerns on stock market returns is found to be greater for high (relative to low) marketing spending firms, i.e. *H3* is supported. Again, similar to *H2*, support for *H3* is supportive of visibility theory over the RBV of the firm. In summary, the effects of CSR on stock returns found earlier to be asymmetrical, for strengths and concerns, are found to be asymmetrical for

المنارة للاستشارات
www.m

Table III. Regression results for the effects of CSR strength and concerns on stock returns – low marketing spending firms

Explanatory variables	(1)		(2)		(3)		(4)	
	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5
Δ CSR strength	0.01 (0.01)	0.06** (0.03)	0.01 (0.01)	0.06** (0.03)	0.01 (0.01)	0.06** (0.03)	0.01 (0.01)	0.06** (0.03)
Δ Marketing	1.52*** (0.43)	2.38*** (0.82)	2.01*** (0.43)	2.93*** (0.83)	2.02*** (0.44)	2.95*** (0.83)	1.69*** (0.44)	2.97*** (0.84)
Δ (CSR strength × marketing)	0.003 (0.11)	−0.27 (0.23)	0.02 (0.11)	−0.26 (0.23)	0.02 (0.11)	−0.26 (0.23)	0.03 (0.11)	−0.26 (0.23)
Δ CSR concern	0.01 (0.02)	0.01 (0.03)	0.01 (0.02)	0.01 (0.03)	0.01 (0.02)	0.01 (0.03)	0.01 (0.02)	0.01 (0.03)
Δ (CSR concern × marketing)	0.02 (0.13)	−0.05 (0.27)	0.01 (0.14)	−0.03 (0.27)	0.01 (0.14)	−0.03 (0.27)	0.04 (0.14)	−0.04 (0.27)
Δ CAPEX			−0.37 (0.37)	0.27 (0.70)	−0.36 (0.37)	0.29 (0.70)	−0.49 (0.37)	0.29 (0.70)
Δ RISK			0.79*** (0.14)	1.17*** (0.26)	0.79*** (0.14)	1.18*** (0.26)	0.79*** (0.14)	1.18*** (0.26)
Δ SALES					−9.6E−06 (7.8E−06)	−1.4E−05 (1.3E−05)	−9.2E−06 (7.8E−06)	−1.4E−05 (1.3E−05)
Δ RND							1.98*** (0.86)	−0.12 (0.44)
Number of observations	3,939	2,181	3,895	2,163	3,895	2,163	3,895	2,163
R^2	0.36	0.43	0.36	0.44	0.37	0.44	0.37	0.44

Notes: ***, **and *indicate 1, 5 and 10% confidence levels, respectively; year-fixed effects are included in each model

www.m

Table IV. Regression results for the effects of CSR strengths and concerns on stock returns – high marketing spending firms

Explanatory variables	(1)		(2)		(3)		(4)	
	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5	Δ TSR_1	Δ TSR_5
Δ CSR concern	−0.01 (0.02)	−0.09** (0.04)	−0.01 (0.02)	−0.10** (0.04)	−0.01 (0.02)	−0.10** (0.04)	−0.01 (0.02)	−0.10** (0.04)
Δ Marketing	1.25*** (0.18)	1.03*** (0.41)	1.35*** (0.19)	1.03*** (0.41)	1.33*** (0.19)	1.02*** (0.41)	1.17*** (0.20)	0.96** (0.42)
Δ (CSR concern × marketing)	0.03 (0.05)	0.22** (0.11)	0.03 (0.05)	0.22** (0.11)	0.04 (0.05)	0.23** (0.11)	0.04 (0.05)	0.23** (0.11)
Δ CSR strength	0.03 (0.02)	0.03 (0.05)	0.02 (0.02)	0.04 (0.05)	0.03 (0.02)	0.05 (0.05)	0.03 (0.02)	0.05 (0.05)
Δ (CSR strength × marketing)	−0.04 (0.04)	−0.06 (0.12)	−0.03 (0.04)	−0.11 (0.12)	−0.03 (0.04)	−0.12 (0.12)	−0.03 (0.04)	−0.11 (0.12)
Δ CAPEX			−0.23 (0.45)	1.54* (0.90)	−0.24 (0.45)	1.50* (0.90)	−0.33 (0.45)	1.47* (0.90)
Δ RISK	–		0.75*** (0.16)	1.02*** (0.33)	0.75*** (0.16)	1.02*** (0.33)	0.75*** (0.16)	1.03*** (0.33)
Δ SALES					−4.782E−05*** (1.3E−05)	−4.213E−05* (2.3E−05)	−4.696E−05*** (1.3E−05)	−4.183E−05* (2.3E−05)
Δ RND							1.44*** (0.49)	0.52 (1.06)
Number of observations	3815	1974	3782	1957	3782	1957	3782	1957
R^2	0.31	0.39	0.31	0.40	0.32	0.40	0.32	0.40

Notes: ***, **and *indicate 1, 5 and 10% confidence levels, respectively; year-fixed effects are included in each model

www.m

high and low marketing spending firms as well. The two results on the effects of concerns on stock returns explain why *H1 (b)* is not supported, i.e. because of aggregation error associated with combining two samples on high and low marketing spending firms with differential effects of concerns on stock returns.

We used the Hausman–Wu endogeneity test (Baum *et al.*, 2003) to test whether CSR is independent from remaining contemporaneous errors. We implemented the test using instruments that are lagged one period beyond the error term for our main three results:

(1) short- and long-term effects of CSR strengths on stock returns (the *H1* result);

(2) short- and long-term effects of CSR strengths of low marketing spending firms on stock returns (the *H2* result); and

(3) short- and long-term effects of CSR concerns of high marketing spending firms on stock returns (the *H3* result).

The corresponding *F*-statistics are 2.85 ($p > 0.05$) and 1.11 ($p > 0.1$) for the *H1* result; 1.91 ($p > 0.1$) and 3.33 ($p > 0.05$) for the *H2* result; and 0.23 ($p > 0.6$) and 1.94 ($p > 0.1$) for the *H3* result, indicating that CSR is not correlated with remaining contemporaneous errors; consequently, we do not need instruments to control for endogeneity.

Subsequently, we conducted analyses to determine whether the positive effects of CSR strengths on stock market returns, *H1(a)*, based on a composite measure of strengths across seven dimensions, are driven by strengths on certain dimension over others. In other words, the composite CSR strength measure across seven dimensions used in Model 1 was replaced by a corresponding CSR strength measure on each of the seven CSR dimensions in the Online Appendix Table. We estimated Model 1 for each of the seven dimensions separately and found that the positive effect of CSR strengths on stock market returns is based primarily on strengths associated with diversity efforts largely aimed within the firm, i.e. strengths on diversity are positively ($p < 0.05$) associated with long-term stock returns.

Similarly, we checked whether the positive effects of CSR strengths on stock returns identified for low marketing spending firms (*H2*) based on a composite measure of concerns across seven dimensions are driven by strengths on certain dimensions over others. We estimated Model 1, for low marketing spending firms, for each of the seven dimensions separately, and found that the positive effect of CSR strengths on stock returns identified for low marketing spending firms is also based primarily on strengths associated with diversity efforts aimed within the firm. This empirical result supports the theory-based commentary of Powell (2011) on the importance of the employee perspective in the ethical alignment of corporate marketing, identity and social responsibility.

Likewise, we conducted an analysis to determine whether the negative effects of CSR concerns on stock returns identified for high marketing spending firms (*H3*) based on a composite measure of concerns across seven dimensions are driven by concerns on certain dimensions over others. We estimated Model 1, for high marketing spending firms, and for each of the seven dimensions separately, and found that the negative effect of CSR concerns on stock market returns identified for high marketing spending firms is based primarily on concerns on human rights, which largely affect constituents outside the firm in addition to employees of the firm, i.e. concerns on human rights are negatively ($p < 0.01$) related to stock returns for high marketing spending firms.

المنارة للاستشارات

www.m

In summary, the CSR dimension-based analysis reveals that for low marketing spending firms, the higher stock market returns from CSR strengths (*H2*) are associated with strengths on diversity efforts aimed at stakeholders within the firm or employees. In contrast, for high marketing spending firms, the lower stock returns resulting from CSR concerns (*H3*) are associated with concerns on human rights, which largely affect stakeholders outside the firm in addition to the morale of employees.

Finally, we conducted a profiling analysis of firms which vary on marketing spending (Table V) which indicates that high marketing spending firms are more prevalent in B2C industries ($p < 0.01$) and have higher R&D spending ($p < 0.05$). Firms with low marketing spending are more prevalent in B2B industries ($p < 0.01$) and have lower R&D spending ($p < 0.05$). Finally, firms with higher marketing spending (to asset ratios) have higher absolute levels of marketing spending ($p < 0.05$), lower sales ($p < 0.05$) and operate in more competitive environments ($p < 0.05$).

Managerial implications, limitations and future research

The four managerial implications of our results are as follows. First, consider low marketing and R&D spending firms with relative low visibility operating in B2B settings. Conventional wisdom may suggest that such firms should not invest in developing CSR strengths because of low visibility; however, our results suggest they should because CSR strengths developed will contrast with stakeholders' low expectations of CSR strengths for such firms, which, despite low visibility, will result in higher stock returns (*H2*). Another reason why low marketing and R&D spending firms with relative low visibility operating in B2B settings should invest in developing strengths is because CSR strengths enable firms to differentiate themselves from other firms in their industry in a way that is desirable for stakeholders. Differentiation is particularly valuable in settings in which competitors are less visible. In addition, our results indicate that investments in CSR for low marketing and R&D spending firms with low visibility operating in B2B settings, from the perspective of stock returns, should be aimed at diversity efforts which can improve employee morale. Examples of diversity efforts which can improve employee morale are:

- promotion of women and minorities to top executive positions, and positions with profit – loss responsibilities and on the board of directors;

Profiling variables	High marketing spending	Low marketing spending	*t*-Stats	Significance
Size	1.31 ($n = 7,387$)	1.65 ($n = 7,361$)	−11.31	*
Size (no log)	20.73 ($n = 7,389$)	19.24 ($n = 7,363$)	1.35	
Asset	3,122.78 ($n = 7,428$)	8,308.46 ($n = 7,413$)	−31.48	*
Sales	4,303.88 ($n = 7,428$)	6,606.21 ($n = 7,413$)	−7.52	*
Marketing spending (in million $)	1,002.28 ($n = 7,428$)	743.87 ($n = 7,412$)	5.47	*
R&D spending	0.06 ($n = 7,428$)	0.05 ($n = 7,413$)	8.62	*
B2C	46.9% ($n = 3,486$)	37.9% ($n = 2,812$)	11.11	**
B2B	53.1% ($n = 3,942$)	62.1% ($n = 4,601$)	−11.11	**
Herfindahl index	0.26 ($n = 7,428$)	0.24 ($n = 7,413$)	3.72	*

Notes: **and *indicate 1 and 5% confidence levels, respectively

Table V. Profiles of high and low marketing spending firms

www.m

- providing work–life benefits such as childcare, elder care or flex care, which increases diversity among employees;
- allocation of certain percentage of the firm's contracts to women and minority owned businesses; and
- adoption of progressive policies toward gay and lesbian employees.

Second, in contrast, consider high marketing and R&D spending firms with relative high visibility operating in B2C settings. Conventional wisdom may suggest that such firms should invest in developing CSR strengths because of high visibility; however, our results suggest that if such firms do invest in developing CSR strengths, because the resulting CSR strengths are considered relative to stakeholders' high expectations of CSR strengths for such firms, strengths are unlikely to result in higher stock returns.

Third, consider low marketing and R&D spending firms, with relative low visibility operating in B2B settings, which have developed CSR concerns. CMOs, CSOs and CFOs in such firms will likely contemplate investments in CSR aimed at mitigating concerns. However, our results suggest that such concerns are not likely to result in lower stock returns because stakeholders do not expect less visible firms to develop CSR strengths.

Fourth, consider high marketing and R&D spending firms, with relatively high visibility operating in B2C settings, which have developed CSR concerns. In such cases, it will be valuable for CMOs, CSOs and CFOs to coordinate their marketing and CSR investments aimed at mitigating CSR concerns because stakeholders expect these firms to have CSR strengths and not concerns. Our results suggest that investments in CSR for these firms seeking to mitigate CSR concerns, from a stock returns perspective, are indeed valuable (*H3*). Mitigating concerns is important not just because stakeholders expect high-visibility firms to have CSR strengths and no concerns, but because it demonstrates good faith when concerns develop. It indicates that when concerns develop, the firm is committed to addressing these in a way that concerns are mitigated. Good faith-based commitment can also differentiate the firm from other firms which are visible but have not developed concerns and firms that develop concerns and are less committed to addressing the concerns. Our results also suggest that efforts to mitigate concerns should be aimed at human rights, due to its pervasive importance for stakeholders of high-visibility firms. Examples of concerns on human rights are when firms face controversies over:

- operations in South Africa, Northern Ireland, Burma and Mexico;
- labor standards in their supply chain;
- indigenous population with the USA; and
- operations or direct investments in, or sourcing from the Sudan, etc.

This study, like any other, is not without limitations. Limitations create future research opportunities. For example, first, we do not explicitly test expectations; however, we do test the implications of expectations to determine the effects of CSR strengths and concerns on stock returns, in a way similar to many published market-based studies reviewed by Srinivasan and Hanssens (2009). This creates future research opportunities for consumer behavior researchers to test the effects of differing expectations on stakeholder reactions of firms' CSR strengths and concerns in laboratory experiments. Second, because our sample comprises a large cross-section of US firms over a decade,

المنارة للاستشارات

www.m

we are unable, because of data unavailability, to investigate mediating marketing variables such as expectations, consumer product or firm evaluations and opinions, loyalty and willingness to pay higher prices, which can be considered in small sample studies of firms over a short time horizon for which such customized data may be more likely available. However, we are able to establish the moderation effect of marketing spending on the relationship between CSR strengths and concerns, and stock market returns, in the short and long terms, for a large cross-section of US firms, industries and time. The results on the moderation effect, as we have demonstrated, are asymmetric for strengths and concerns, low and high marketing spending firms and short- and long-term effects on stock returns, generating useful implications for CSO, CFOs and CMOs, who can, based on our results, differentially coordinate CSR and marketing investments across firms, for better stock returns. We hope future academic- and commercial-based research will build on our research in such directions.

Notes

1. Later in the results section, we explore whether the results on the effects of the composite measure are driven by some dimensions over others.
2. Chang *et al.* (2014) and Mattingly and Berman (2006) do not consider marketing spending. Chang *et al.* (2014), Erhemjamts *et al.* (2013) and Servaes and Tamayo (2013) do not consider stock returns. Cho *et al.* (2013) do not consider marketing spending or stock returns. Vaaland *et al.*'s (2008) study is based on a literature review, not an empirical analysis.

References

Alexander, G.J. and Buchholz, R.A. (1978), "Corporate social responsibility and stock market performance", *Academy of Management Journal*, Vol. 21 No. 3, pp. 479-486.

Aupperle, K.E., Carroll, A.B. and Hatfield, J.D. (1985), "An empirical examination of the relationship between corporate social responsibility and profitability", *Academy of Management Journal*, Vol. 28 No. 2, pp. 446-463.

Bansal, P. (1996), *Institutional Pressures Associated With Corporate Environmental Strategies*, Academy of Management Conference, Cincinnati, OH.

Barnett, M.L. (2007), "Stakeholder influence capacity and the variability of financial returns to corporate social responsibility", *Academy of Management Review*, Vol. 32 No. 3, pp. 794-816.

Barnett, M.L. and Salomon, R.M. (2012), "Does it pay to be really good? Addressing the shape of the relationship between social and financial performance", *Strategic Management Journal*, Vol. 33 No. 11, pp. 1304-1320.

Barney, J. (1991), "Firm resources and sustained competitive advantage", *Journal of Management*, Vol. 17 No. 1., pp. 99-120.

Barone, M.J., Miyazaki, A.D. and Taylor, K.A. (2000), "The influence of cause-related marketing on consumer choice: does one good turn deserve another?", *Journal of the Academy of Marketing Science*, Vol. 28 No. 2, pp. 248-262.

Baum, C.F., Schaffer, M.E. and Stillman, S. (2003), "Instrumental variables and GMM: estimation and testing", *Stata Journal*, Vol. 3 No. 1, pp. 1-31.

Bénabou, R. and Tirole, J. (2010), "Individual and corporate social responsibility", *Economica*, Vol. 77 No. 305, pp. 1-19.

المنارة للاستشارات

www.m

Berger, I.E. and Kanetkar, V. (1995), "Increasing environmental sensitivity via workplace experiences", *Journal of Public Policy & Marketing*, Vol. 14 No. 2, pp. 205-215.

Berman, S.L., Wicks, A.C., Kotha, S. and Jones, T.M. (1999), "Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance", *Academy of Management Journal*, Vol. 42 No. 5, pp. 488-506.

Bhattacharya, C.B. and Sen, S. (2004), "Doing better at doing good", *California Management Review*, Vol. 47 No. 1, pp. 9-24.

Bowen, F.E. (2000), "Environmental visibility: a trigger of green organizational response?", *Business Strategy and the Environment*, Vol. 9 No. 2, p. 92.

Bragdon, J.H. Jr and Marlin, J. (1972), "First pollution profitable?", *Risk Management*, Vol. 19, pp. 9-18.

Brower, J. and Mahajan, V. (2013), "Driven to be good: a stakeholder theory perspective on the drivers of corporate social performance", *Journal of Business Ethics*, Vol. 117 No. 2, pp. 313-331.

Brown, T.J. and Dacin, P.A. (1997), "The company and the product: corporate associations and consumer product responses", *Journal of Marketing*, Vol. 61 No. 1, pp. 68-84.

Chang, K., Kim, I. and Li, Y. (2014), "The heterogeneous impact of corporate social responsibility activities that target different stakeholders", *Journal of Business Ethics*, Vol. 125 No. 2, pp. 211-234.

Chatterji, A.K., Levine, D.I. and Toffel, M.W. (2009), "How well do social ratings actually measure corporate social responsibility?", *Journal of Economics & Management Strategy*, Vol. 18 No. 1, pp. 125-169.

Chiu, S.C. and Sharfman, M. (2009), "Legitimacy, visibility, and the antecedents of corporate social performance: an investigation of the instrumental perspective", *Journal of Management*, Vol. 37 No. 6, pp. 1558-1585.

Cho, S.Y., Lee, C. and Pfeiffer, R.J. (2013), "Corporate social responsibility performance and information asymmetry", *Journal of Accounting and Public Policy*, Vol. 32 No. 1, pp. 71-83.

Choi, J. and Wang, H. (2009), "Stakeholder relations and the persistence of corporate financial performance", *Strategic Management Journal*, Vol. 30 No. 8, pp. 895-907.

Cochran, P.L. and Wood, R.A. (1984), "Corporate social responsibility and financial performance", *Academy of Management Journal*, Vol. 27 No. 1, pp. 42-56.

Coffey, B.S. and Fryxell, G.E. (1991), "Institutional ownership of stock and dimensions of corporate social performance: an empirical examination", *Journal of Business Ethics*, Vol. 10 No. 6, pp. 437-444.

Creyer, E.H. and Ross, W.T. Jr (1996), "The impact of corporate behavior on perceived product value", *Marketing Letters*, Vol. 7 No. 2, pp. 173-185.

Daub, C.H. and Ergenzinger, R. (2005), "Enabling sustainable management through a new multi-disciplinary concept of customer satisfaction", *European Journal of Marketing*, Vol. 39 Nos 9/10, pp. 998-1012.

Derwall, J., Guenster, N., Bauer, R. and Koedijk, K. (2005), "The eco-efficiency premium puzzle", *Financial Analysts Journal*, Vol. 61 No. 2, pp. 51-63.

Dowling, J. and Pfeffer, J. (1975), "Organizational legitimacy: social values and organizational behavior", *Pacific Sociological Review*, Vol. 18 No. 1, pp. 122-136.

Du, S., Bhattacharya, C. and Sen, S. (2007), "Reaping relational rewards from corporate social responsibility: the role of competitive positioning", *International Journal of Research in Marketing*, Vol. 24 No. 3, pp. 224-241.

المنارة للاستشارات

www.m

Easley, D. and O'Hara, M. (2004), "Information and the cost of capital", *Journal of Finance*, Vol. 59 No. 4, pp. 1553-1583.

Ellen, P.S., Mohr, L.A. and Webb, D.J. (2000), "Charitable programs and the retailer: do they mix?", *Journal of Retailing*, Vol. 76 No. 3, pp. 393-406.

Erhemjamts, O., Li, Q. and Venkateswaran, A. (2013), "Corporate social responsibility and its impact on firms' investment policy, organizational structure, and performance", *Journal of Business Ethics*, Vol. 118 No. 2, pp. 395-412.

Fang, L. and Peress, J. (2009), "Media coverage and the cross-section of stock returns", *Journal of Finance*, Vol. 64 No. 5, pp. 2023-2052.

Fombrun, C.J., Gardberg, N.A. and Barnett, M.L. (2000), "Opportunity platforms and safety nets: corporate citizenship and reputational risk", *Business and Society Review*, Vol. 105 No. 1, pp. 85-106.

Freeman, R.E. (2010), *Strategic Management: A Stakeholder Approach*, Cambridge University Press, Cambridge, MA.

Gardberg, N.A. and Fombrun, C.J. (2006), "Corporate citizenship: creating intangible assets across institutional environments", *Academy of Management Review*, Vol. 31 No. 2, pp. 329-346.

Godfrey, P.C. (2005), "The relationship between corporate philanthropy and shareholder wealth: a risk management perspective", *Academy of Management Review*, Vol. 30 No. 4, pp. 777-798.

Graves, S.B. and Waddock, S.A. (1994), "Institutional owners and corporate social performance", *Academy of Management Journal*, Vol. 37 No. 4, pp. 1034-1046.

Guney, Y. and Schilke, A.R. (2010), "The relationship between corporate social and financial performance: do endogeneity, non-linearity and adjustment issues matter?", *FMA European Conference*, Hamburg.

Hawn, O., Chatterji, A. and Mitchell, W. (2011), *How Operational Legitimacy Conditions the Impact of Changes in Social Legitimacy on Firm'S Economic Value: The Dow Jones Sustainability Index Addition And Deletion*, Duke University, Durham, NC.

Hildebrand, D., Sen, S. and Bhattacharya, C. (2011), "Corporate social responsibility: a corporate marketing perspective", *European Journal of Marketing*, Vol. 45 Nos 9/10, pp. 1353-1364.

Hillman, A.J. and Keim, G.D. (2001), "Shareholder value, stakeholder management, and social issues: what's the bottom line?", *Strategic Management Journal*, Vol. 22 No. 2, pp. 125-139.

IEG (2012), "IEG sponsorship report 2012", available at: www.sponsorship.com/IEG/files/4e/4ea13a39-3329-45d1-abd3-4ce285c9fd3f.pdf (accessed 11 August 2015).

Jensen, M.C. (2002), "Value maximization, stakeholder theory, and the corporate objective function", *Business Ethics Quarterly*, Vol. 12 No. 2, pp. 235-256.

Johnson, R.A. and Greening, D.W. (1999), "The effects of corporate governance and institutional ownership types on corporate social performance", *Academy of Management Journal*, Vol. 42 No. 5, pp. 564-576.

Kacperczyk, A. (2009), "With greater power comes greater responsibility? Takeover protection and corporate attention to stakeholders", *Journal of Strategic Management*, Vol. 30 No. 3, pp. 261-285.

Kahneman, D. and Tversky, A. (1979), "Prospect theory: an analysis of decision under risk", *Econometrica: Journal of the Econometric Society*, Vol. 47 No. 2, pp. 263-291.

Kimbrough, M.D. and McAlister, L. (2009), "Linking marketing actions to value creation and firm value: insights from accounting research", *Journal of Marketing Research*, Vol. 46 No. 3, pp. 313-329.

المنارة للاستشارات

www.m

Klein, J. and Dawar, N. (2004), "Corporate social responsibility and consumers' attributions and brand evaluations in a product - harm crisis", *International Journal of Research in Marketing*, Vol. 21 No. 3, pp. 203-217.

Krishnan, H.A., Tadepalli, R. and Park, D. (2009), "R&D intensity, marketing intensity, and organizational performance", *Journal of Managerial Issues*, Vol. 21 No. 2, pp. 232-244.

Lichtenstein, D.R., Drumwright, M.E. and Braig, B.M. (2004), "The effect of corporate social responsibility on customer donations to corporate-supported nonprofits", *Journal of Marketing*, Vol. 68 No. 4, pp. 16-32.

Luo, X. (2008), "When marketing strategy first meets wall street: marketing spendings and firms' initial public offerings", *Journal of Marketing*, Vol. 72 No. 5, pp. 98-109.

Luo, X. and Bhattacharya, C.B. (2006), "Corporate social responsibility, customer satisfaction, and market value", *Journal of Marketing*, Vol. 70 No. 4, pp. 1-18.

Maignan, I. and Ferrell, O. (2004), "Corporate social responsibility and marketing: an integrative framework", *Journal of the Academy of Marketing Science*, Vol. 32 No. 1, pp. 3-19.

Maignan, I., Ferrell, O. and Ferrell, L. (2005), "A stakeholder model for implementing social responsibility in marketing", *European Journal of Marketing*, Vol. 39 Nos 9/10, pp. 956-977.

Mattingly, J.E. and Berman, S.L. (2006), "Measurement of corporate social action discovering taxonomy in the Kinder Lydenburg Domini ratings data", *Business & Society*, Vol. 45 No. 1, pp. 20-46.

McWilliams, A. and Siegel, D. (1997), "The role of money managers in assessing corporate social responsibility research", *The Journal of Investing*, Vol. 6 No. 4, pp. 98-107.

McWilliams, A. and Siegel, D.S. (2000), "Corporate social responsibility and financial performance: correlation or misspecification", *Strategic Management Journal*, Vol. 21 No. 5, pp. 603-609.

McWilliams, A. and Siegel, D. (2001), "Corporate social responsibility: a theory of the firm perspective", *Academy of Management Review*, Vol. 26 No. 1, pp. 117-127.

McWilliams, A., Siegel, D.S. and Wright, P.M. (2006), "Corporate social responsibility: strategic implications", *Journal of Management Studies*, Vol. 43 No. 1, pp. 1-18.

Milton, F. (1970), "The social responsibility of business is to increase its profits", *New York Times Magazine*, Vol. 13, pp. 32-33.

Mitchell, R.K., Agle, B.R. and Wood, D.J. (1997), "Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts", *Academy of Management Review*, Vol. 22 No. 4, pp. 853-886.

Mizik, N. and Jacobson, R. (2007), "Myopic marketing management: evidence of the phenomenon and its long-term performance consequences in the SEO context", *Marketing Science*, Vol. 26 No. 3, pp. 361-379.

Morgan, N.A. and Rego, L.L. (2009), "Brand portfolio strategy and firm performance", *Journal of Marketing*, Vol. 73 No. 1, pp. 59-74.

Moskowitz, M. (1972), "Choosing socially responsible stocks", *Business and Society Review*, Vol. 1 No. 1, pp. 71-75.

Moskowitz, M. (1992), "When your conscience needs a guide", *Business and Society Review*, Vol. 83, pp. 71-75.

Neville, B.A., Bell, S.J. and Mengüç, B. (2005), "Corporate reputation, stakeholders and the social performance-financial performance relationship", *European Journal of Marketing*, Vol. 39 Nos 9/10, pp. 1184-1198.

المنارة للاستشارات

www.m

Nielsen (2013), "Consumers Who Care", available at: www.csr.ee/upload/fck/Nielsen-Global-Report-Consumers-Who-Care-August-2013.pdf (accessed 11 August 2015).

Pfarrer, M.D., Pollock, T.G. and Rindova, V.P. (2010), "A tale of two assets: the effects of firm reputation and celebrity on earnings surprises and investors' reactions", *Academy of Management Journal*, Vol. 53 No. 5, pp. 1131-1152.

Porter, M.E. and Kramer, M.R. (2006), "Strategy and society, the link between competitive advantage and corporate social responsibility", *Harvard Business Review*, Vol. 85 No. 12, pp. 78-92.

Powell, S.M. (2011), "The nexus between ethical corporate marketing, ethical corporate identity and corporate social responsibility: an internal organisational perspective", *European Journal of Marketing*, Vol. 45 Nos 9/10, pp. 1365-1379.

Rappaport, A. and Flaherty, M.F. (1992), *Corporate Responses to Environmental Challenges: Initiatives by Multinational Management*, Praeger Publisher text, Santa Barbara, CA.

Reputation Institute (2013), "Global RepTrak™ 100", available at: www.reputationinstitute.com/thought-leadership/complimentary-reports-2013 (accessed 11 August 2015).

Schuler, D.A. and Cording, M. (2006), "A corporate social performance – corporate financial performance behavioral model for consumers", *Academy of Management Review*, Vol. 31 No. 3, pp. 540-558.

Servaes, H. and Tamayo, A. (2013), "The impact of corporate social responsibility on firm value: the role of customer awareness", *Management Science*, Vol. 59 No. 5, pp. 1045-1061.

Sharfman, M. (1996), "The construct validity of the Kinder, Lydenberg, and Domini social performance ratings data", *Journal of Business Ethics*, Vol. 15 No. 3, pp. 287-296.

Sharfman, M.P., Wolf, G., Chase, R.B. and Tansik, D.A. (1988), "Antecedents of organizational slack", *Academy of Management Review*, Vol. 13 No. 4, pp. 601-614.

Smith, N.C. (2003), "Corporate social responsibility: whether or how?", *California Management Review*, Vol. 45 No. 4, pp. 52-76.

Smith, W. and Higgins, M. (2000), "Cause-related marketing: ethics and the ecstatic", *Business & Society*, Vol. 39 No. 3, pp. 304-322.

Srinivasan, S. and Hanssens, D.M. (2009), "Marketing and firm value: metrics, methods, findings, and future directions", *Journal of Marketing Research*, Vol. 46 No. 3, pp. 293-312.

Turban, D.B. and Greening, D.W. (1997), "Corporate social performance and organizational attractiveness to prospective employees", *Academy of Management Journal*, Vol. 40 No. 3, pp. 658-672.

Ullmann, A.A. (1985), "Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms", *Academy of Management Review*, Vol. 10 No. 3, pp. 540-557.

Vaaland, T.I., Heide, M. and Grønhaug, K. (2008), "Corporate social responsibility: investigating theory and research in the marketing context", *European Journal of Marketing*, Vol. 42 Nos 9/10, pp. 927-953.

Vance, S.C. (1975), "Are socially responsible corporations good investment risks", *Management Review*, Vol. 64 No. 8, pp. 19-24.

Varadarajan, P.R. and Menon, A. (1988), "Cause-related marketing: a coalignment of marketing strategy and corporate philanthropy", *The Journal of Marketing*, pp. 58-74.

Vlachos, P.A., Tsamakos, A., Vrechopoulos, A.P. and Avramidis, P.K. (2009), "Corporate social responsibility: attributions, loyalty, and the mediating role of trust", *Journal of the Academy of Marketing Science*, Vol. 37 No. 2, pp. 170-180.

Waddock, S.A. and Graves, S.B. (1997), "The corporate social performance-financial performance link", *Strategic Management Journal*, Vol. 18 No. 4, pp. 303-319.

Williamson, O.E. (1975), *Markets and Hierarchies*, Free Press, New York, NY.

المنارة للاستشارات

www.m

About the authors

Hannah Oh is an Assistant Professor of Marketing at the University of Nebraska Omaha, USA.

John Bae is an Assistant Professor of Finance at Elon University, Elon, North Carolina, USA.

Imran S. Currim is a Chancellor's Professor and Professor of Marketing at the Paul Merage School of Business, University of California, Irvine (UCI), California Imran S. Currim is the corresponding author and can be contacted at: iscurrim@uci.edu

Jooseop Lim is Associate Professor of Marketing, John Molson School of Business, Concordia University, Montreal, Quebec, CANADA.

Yu Zhang is Assistant Professor of Management at China Europe International Business School, Shanghai, China.

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**

المنارة للاستشارات

www.m

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.

المنارة للاستشارات

www.m