



The effect of cause-related marketing on firm value: a look at *Fortune's* most admired all-stars

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Abstract

Companies are increasing their use of cause-related marketing as a means of communicating their commitment to corporate social responsibility while accomplishing their strategic goals. Although prior studies suggest that consumers react positively to cause-related marketing programs, understanding of their impact on financial performance remains limited. To address this gap, the authors employ an event study to examine the effects of cause-related marketing announcements on shareholder value using a sample of firms that appeared on *Fortune's* Most Admired All-Star list between 2005 and 2017. Study results show that announcement of these initiatives results in a significant loss of shareholder value. These losses are most pronounced for firms making monetary-only contributions, in comparison to those that make in-kind donations. In addition, the negative effects are mitigated for firms that have stronger reputations, have greater resource slack, and operate in more dynamic industries. Moreover, low-reputation and low-slack firms benefit most from in-kind contributions.

Keywords Cause-related marketing · Corporate social responsibility · Shareholder value · Event-study analysis · Resource based view

Introduction

The ubiquity of CSR in business today is indicative of a broader shift with respect to societal expectations of firms and managers.

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For instance, one recent industry report found that 80% of global consumers agree that business must play a role in addressing social issues (Edelman 2017). Cause-related marketing, whereby firms create strategies designed to promote the achievement of marketing objectives via company support of social causes (Barone et al. 2000), has become a highly visible form of CSR. Annual corporate expenditure on cause-related marketing has escalated over the past two decades, growing from \$816 million in 2002 to more than \$2.05 billion in 2017 (IEG 2018). It is noteworthy that firms may elect to contribute to partner causes in different ways through these programs. For example, in a well-known campaign, American Express donated 2 cents per credit card transaction to Share Our Strength, a nonprofit organization providing food to those in need (Barone et al. 2000). Alternately, the firm may contribute products, services, or expertise, such as the case with Amazon's Kindle e-Reader program that partners with local libraries, schools, and international nonprofits in donating e-readers and Fire tablets in support of improving worldwide literacy.

The ongoing surge of cause-related marketing as an industry practice is mirrored by a growing body of academic research. A number of survey- and lab-based studies have credited cause-related marketing with inducing more favorable consumer attitudes and greater purchase likelihood (Brown and Dacin

1997; Strahilevitz and Myers 1998; Trimble and Rifon 2006) and have examined how factors such as product-cause fit (Lafferty et al. 2004), product type (Chang 2008), message framing (Grau and Folse 2007), donation amount (Pracejus et al. 2003), and price discounts (Andrews et al. 2014) influence consumer response. However, other research suggests the benefits of these initiatives may not justify their costs, neither in terms of short-term sales (Pracejus and Olsen 2004) nor in terms of long-term shifts in brand perceptions (Porter and Kramer 2006). Moreover, only a limited number of field studies have examined actual consumer behaviors (e.g., Andrews et al. 2014; Ballings et al. 2018). Therefore, despite its growing prevalence in industry and support for the positive effects of cause-related marketing in lab experiments and surveys, there is limited evidence of its effects on more objective measures of financial performance (Fig. 1).

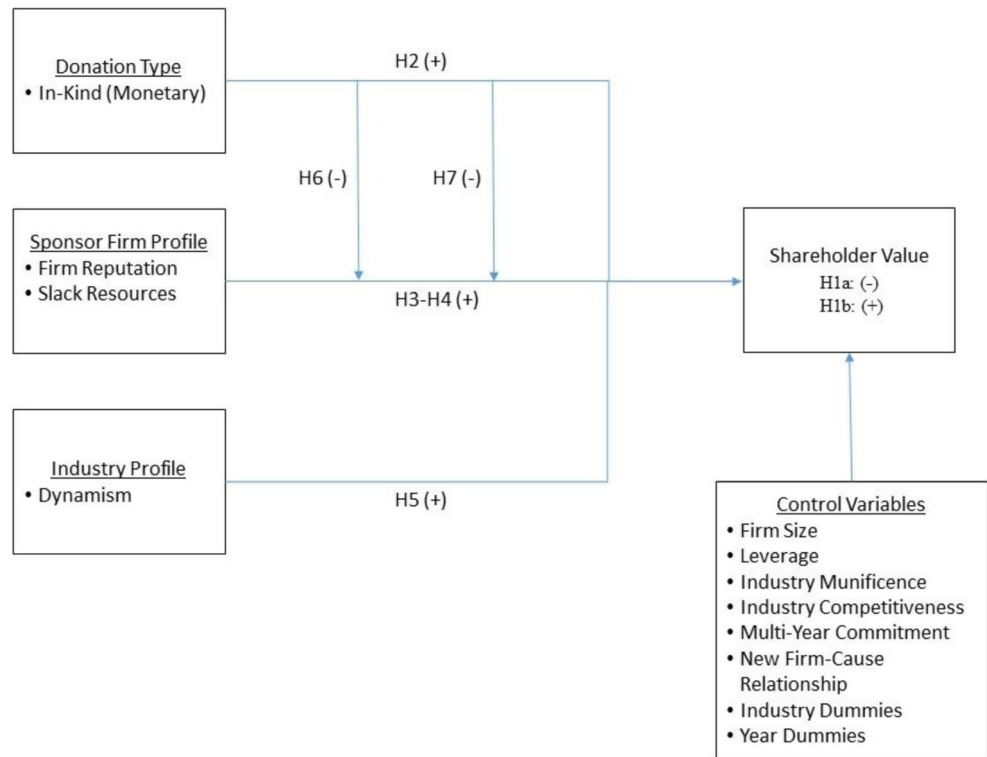
Without research that incorporates the effects of cause-related marketing on financial performance, knowledge of the potency of these strategic initiatives will remain limited (Andrews et al. 2014). The present study is the first to employ an event study design to investigate how firm shareholder value is impacted by news of a cause-related marketing campaign. Since cause-related marketing and other pro-social investments involve the diversion of scarce firm resources from areas more directly related to the firm’s value proposition, examination of investor reaction to cause-related marketing announcements contributes to a more well-rounded understanding. In addition, investigating factors that influence the direction and magnitude of shareholder response can help

strengthen knowledge of how program design features, firm resources, and industry dynamics contribute to brand-cause partnership outcomes. The present study addresses this gap in the literature and responds to calls for greater accountability and transparency of marketing expenditures (Luo and Bhattacharya 2006; Stewart and Gugel 2016). In so doing, we address the following key research questions:

1. Does the nature of a firm’s contribution—i.e., monetary versus in-kind—influence investor response to cause-related marketing announcements?
2. How do firm- and industry-related factors influence the direction and magnitude of shareholder wealth changes resulting from cause-related marketing announcements?

Based on an extensive archival search, we develop a unique dataset of 344 discrete cause-related marketing campaigns announced by 62 firms that appeared on *Fortune’s* Most Admired All-Star list between 2005 and 2017. We utilized an event study design to calculate abnormal stock returns associated with these announcements. Next, we used a random effects regression model to examine how characteristics of the agreement (i.e., donation type), firm, and industry collectively influence the direction and magnitude of shareholder wealth effects. Study findings show while overall market response to such announcements is negative on average, this negative effect is systematically mitigated based on features of the campaign, firm resources, and industry characteristics.

Fig. 1 Conceptual model



The research contributes to the literature in three key ways. First, our study is the first to examine the effects of cause-related marketing on shareholder wealth. In so doing, we respond to calls for new research that investigates the influence of discrete CSR activities on financial performance (Reibstein et al. 2009). Our study is among a comparatively small minority that have looked beyond customer mindset metrics in examining the effects of cause-related marketing. Second, study findings highlight how the manner by which firms transfer resources to the cause—i.e., either in-kind or monetary-only—plays a significant role in driving market response to news of the cause-related marketing partnership. We cite theory that suggests in-kind giving triggers a more favorable response by investors in comparison to monetary-only donations because it is perceived as a more effective approach to boosting stakeholder perceptions of the firm. Finally, study findings provide new insights with respect to how the complementary firm resources and environmental uncertainty impact investor response to news of a cause-related marketing initiative.

The remainder of this paper is organized as follows. First, we outline our theoretical framework. Then, we develop a set of hypotheses explaining how certain firm, partnership, and industry factors influence the direction and magnitude of shareholder response to cause-related marketing announcements. We then proceed with the methodology and results and conclude with implications for theory and practice and the study's limitations.

Conceptual development and hypotheses

Our examination of the relationship between cause-related marketing and firm performance is best understood within the context of the broader debate over the normative and business imperatives for corporate CSR. On the one side, neoclassical economists have viewed CSR from an agency theory perspective (Jensen and Meckling 1976). Agency theory suggests that managers as agents enjoy informational advantages over principals (i.e., ownership) with respect to business operations. Friedman (1970) asserts that firm engagement in CSR is indicative of an agency conflict, whereby managers utilize CSR as a means to further their own social, political, or career agendas at the expense of shareholders. While principals may strive to minimize goal conflicts through more explicit contracts and various forms of agent monitoring, these mechanisms are costly and their effectiveness in governing agent behaviors is equivocal (Bergen et al. 1992). Thus, agency issues arising from CSR are thought to negatively impact the level and certainty associated with future cash flows. Moreover, as CSR programs divert scarce resources away from core business activities, firm social commitments are seen as coming at the expense of activities directly related to its obligation to shareholders—that is, to increase profits

(Friedman 1970). Since it is difficult for shareholders to verify CSR outcomes, this line of thinking suggests that on the whole, agency related costs and hazards arising from CSR lead to diminished shareholder wealth.

Conversely, marketing scholars have adopted the RBV (Barney 1986) and stakeholder theory (Freeman 1984) in proposing a positive relationship between CSR and corporate financial performance. The RBV advances a profit-maximization logic by which CSR investment is financially valuable to shareholders because it helps the firm derive market-based advantages through access, acquisition, or development of new resources (e.g., Russo and Fouts 1997). To the extent valuable resources are also rare and difficult to appropriate, competitive advantages may be sustained, leading to superior financial performance and shareholder value (Peteraf 1993). Stakeholder theory advocates the need for managers to balance the interests of all firm stakeholders, not simply shareholders, in order to create a competitive advantage. By this view, CSR investments enable organizations to meet stakeholder expectations for social responsibility (Sen et al. 2006), thereby generating more favorable brand images and associations (Bhattacharya and Sen 2003). By virtue of preferred positioning with the stakeholder groups upon which it relies for key resources, firms can improve their profitability and elevate shareholder wealth.

Combining these perspectives, Mishra and Modi (2016) propose that CSR's relationship with shareholder wealth depends on the net effect of agency costs associated with managers' social activities and the value of stakeholder-based resources gained via CSR. In line with this view, we note here that different types of CSR activities hold greater appeal to certain stakeholder groups. It follows that different types of CSR may elicit access to different resources and incur a corresponding range of agency-related risks and costs. In concert, we believe these factors have frustrated scholars' efforts to establish a direct link between CSR and corporate financial performance (CFP). Indeed, findings from prior research examining the CSR–CFP relationship have been decidedly mixed, with studies showing positive, negative, neutral, and even curvilinear (i.e., inverted-U and U-shaped) effects.

The absence of a clear pattern linking CSR with firm financial performance suggests the relationship may be more nuanced than acknowledged in early work. For instance, if the market does not react in uniform fashion to all forms of CSR, then examining market response to particular forms of CSR, such as cause-related marketing, may provide improved understanding. Likewise, it seems quite possible that information pertaining to details of the CSR initiative (e.g., cause–brand fit, campaign duration, financial magnitude) along with firm-specific (e.g., competitive action) and industry-related (e.g., munificence) characteristics may also color market reactions.

To highlight the intended contribution of the present study, Table 1 offers an illustrative summary of findings from two

Table 1 Literature on the effect of CSR and cause-related marketing on financial related outcomes

| Study | Key Objective | Empirical Context | Outcome Variable |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Research Stream 1 - CSR Literature Kang et al. (2016) | Examination of the process through which CSR effects financial performance and compares the mechanisms of slack resources, good management, penance, or reputational insurance. | CSR and corporate social irresponsibility were operationalized with KLD data for 4500 firms from 1991 to 2009 | Tobin's Q |
| Lenz et al. (2017) | Examination of how corporate social irresponsibility effects firm value and differentiates between the domain of proactive CSR and irresponsible offenses. | CSR was operationalized by KLD data with sample of 3041 firms from 1991 to 2009 | Tobin's Q |
| Luo and Bhattacharya (2006) | Examination of the role of customer, firm innovativeness, and product quality in the CSR to financial performance relationship. | CSR was operationalized by Fortune's annual CSR ratings with a sample of 113 firms from 2001 to 2004 | Tobin's Q and stock returns |
| Luo and Bhattacharya (2009) | Examination of the effect of CSR on firm-idiosyncratic risk, as well as assesses advertising and R&D as moderators. | CSR was operationalized by Fortune's annual CSR ratings with a sample of 542 firms from 2002 to 2003 | Firm-idiosyncratic risk |
| Madsen and Rodgers (2015) | Examination of the shareholder response to disaster relief donations, donation type, and press coverage. | Event study with sample of firms from U.S. Chamber of Commerce's Business Civic Leadership Center with 433 announcements across 4 natural disasters | Cumulative abnormal returns |
| Mazodier and Rezaee (2013) | Examination of the shareholder response to firm sponsorship of general events and philanthropic events. | Event study with sample of announcements from a sponsorship agency of international companies in 2010 with 293 events | Cumulative abnormal returns |
| Muller and Kräussl (2011) | Examination of shareholder response to donations following Hurricane Katrina considering the role of firms past social irresponsibility. | Event study of Fortune 500 firms with 245 announcements from 2004 to 2005 | Abnormal returns |
| Seifert et al. (2003) | Examination of the relationship between philanthropic donations, cash resources, and financial performance. | Matched "big givers" and "small givers" and divided sample into with 65 pairs based on data from the Foundation Center | Accounting returns and stockholder returns |
| Waddock and Graves (1997) | Examination of the relationship of cash resources, CSR, and financial performance, specifically testing the causal direction of the relationships. | CSR was operationalized by KLD data with sample of 469 companies during 1990 | ROA, ROE, and ROS |
| Research Stream 2 - Cause-Related Marketing Literature Samu and Wymer (2014) | Investigation of the effects of type of message (information/buy), the moderating effects of hit (high/low) and salience (brand vs cause) and the mediating effects of attributions of partner motives in cause marketing advertisements. | Two experiments, one with students and the second with a more representative sample of the population. ANOVA and structural equation modeling were used to test relationships. | Attributions of Firm Motives |
| Pracejus and Olsen (2004) | Extend findings of how brand/cause fit affects consumer choice. | Two studies involving 329 respondents | Consumer Choice |
| Bigné-Alcañiz et al. (2009) | Analyze the moderating effect of consumer altruistic values upon two drivers of brand credibility | Data collected using the random route sampling technique. Sample formed by consumers of insurance and personal hygiene products | Cause-brand fit and altruistic brand motivations |
| Van den Brink et al. (2006) | Examines the effect of strategic vs tactical cause-related marketing along with the moderating role of consumer involvement with a product on the relationship between cause-related marketing and brand loyalty. | Respondents were students from a western European university and an experiment relied on imaginary storyboards. | Consumer Brand Loyalty |
| Gupta and Pirsch (2006) | Examines the relationship between the company, cause and customer, and how fit between these three groups influences consumer response | Study 1 = 232 students. Study 2 = 531 consumers. | Consumer Attitude and purchase intentions |
| Robinson et al. (2012) | Examine conditions in which cause-related marketing campaigns allow consumers to choose the cause that receives the donation and whether that leads to great customer support. | A field study and a laboratory study were used | Perceived Personal Role and Consumer Reactions |
| Krishna (2011) | Examine whether engaging in cause-related marketing actually reduces charitable giving. | Two laboratory experiments and 1 pilot field study were used | Non-profit Performance |
| Current Research | Examines how shareholders respond to cause-related marketing announcements and evaluates the effect of donation type, characteristics of the sponsor firm, and industry features. | Event study of 344 events from 2005 to 2017 | Cumulative Abnormal Returns |

distinct research streams. The first stream has sought to link overall CSR investment with corporate financial performance, mostly employing secondary data sources and econometric methods. This body of research predominately examines CSR in a broad sense, characterizing firm CSR by combining scores covering a spectrum of CSR activities (e.g., environmental, product, diversity, corporate governance, employees, and community). The second, largely relying on surveys and experimental design, has focused on cause-related marketing specifically, examining conditions under which cause-related marketing positively influences individuals' perceptions, attitudes, and behavioral intentions toward the sponsor firm and its brands. Lastly, we detail the key objectives, research context, and empirical findings of the present paper. By considering the shareholder value consequences of firms initiating cause-related marketing campaigns, the paper is positioned to uniquely complement research from each stream.

Impact of cause-related marketing on market value

Based upon the preceding discussion, we believe participation in cause-related marketing partnerships can—for some firms—lead to improvements in resource positions vis-à-vis their rivals and improvements in financial performance. At the same time, inability to accurately ascertain financial returns from cause-related marketing along with the potential for high agency costs associated with these tactics may—for other firms—dampen market enthusiasm. In either event, we believe it likely that investors will utilize information contained in publically available accounts of cause-related marketing agreements to adjust their expectations of future firm financial performance (cf. Flammer 2013). Furthermore, we expect substantial variation in abnormal returns associated with these events owing to (1) the limited amount of work that has linked cause-related marketing to financial outcomes and (2) mixed findings produced by earlier studies examining the broader CSR→CFP link. Past research has acknowledged different domains of CSR (related to elements such as: environmental, product, diversity, corporate governance, employees, and community) undoubtedly vary in how they affect firm performance (Mishra and Modi 2016). Therefore, with respect to the impact of cause-related marketing announcements and shareholder wealth, we present competing hypotheses.

Negative impact of cause-related marketing announcements on abnormal returns From an investor's standpoint, cause-related marketing initiatives may be seen as an expensive and risky undertaking. Shareholders have limited ability to verify positive economic or social returns associated with these campaigns all the while incurring increased agency risks and costs. Anticipated economic and market gains may also be muted by customer self-interest and the well documented "attitude-behavior gap," whereby self-proclaimed ethical

consumers fail to actually buy ethical products (Chatzidakis et al. 2007). Prior research suggests that, for many individuals, support of cause-related marketing is predicated on the condition that a firm's charitable efforts do not entail diminished product quality or added consumer costs (Barone et al. 2000). Along these lines, Winterich and Barone (2011) found high congruence between a consumer's identity and the sponsored cause dictated preference for giving a donation versus receiving an equivalent discount. Further, for controversial causes and non-profit organizations, investors may hold reasonable concerns over whether the campaign may backfire, alienating some stakeholders and damaging profits (Lane and Jacobson 1995).

While the intent of cause-related marketing is to create financially beneficial outcomes for the sponsor and cause, research suggests that marketing managers may be challenged to make stakeholders aware of their pro-social efforts in ways that create goodwill. Berman et al. (2015) suggest cause-related marketing campaign managers may encounter a "braggart's dilemma," whereby the very act of linking sale of a product to a firm donation or informing the public about a campaign's results may signal selfish motives on the part of the firm. As consumers' attributions of firm generosity are closely linked to favorable brand attitudes and purchase intentions, investor appetite for cause-related marketing may be diminished out of concerns that heavy promotion of a campaign (or its results) may produce unintended negative publicity and even weaken brand attitudes and response. The Global Fund's Red Campaign offers an iconic example of this type scrutiny and negative backlash. Back in 2006, various media reports publicized that the marketing expenses of this joint promotional effort between the Global Fund and its various partners, including Apple, Motorola, Armani, and the Gap, greatly exceeded the funds actually contributed to the cause (Frazier 2007).

Finally, shareholders are not just concerned over whether or not an action taken by firm managers is beneficial, they also judge investments based on perceived opportunity costs and whether a decision represent the most efficient use of funds (Wiles et al. 2012). For some investors, cause-related marketing investments may be seen as diverting funds away from vital capital improvements or offering shareholder dividends. To the extent a cause-related marketing initiative generates goodwill or boosts short-term sales, the return on marketing investment may be perceived as poor in comparison to alternative marketing uses, such as R&D, advertising, or sales force incentives.

Positive impact of cause-related marketing announcements on abnormal returns Adopting a resource-based logic, advocates have proposed that cause-related marketing should favorably impact financial performance by providing firms with preferential access to resources that, when coupled with

existing resources and capabilities, may lead to marketplace advantages. For instance, by aligning with a social cause, cause-related marketing can help marketing managers to bolster brand image and establish a more distinctive brand position via the addition of social attributes or features (McWilliams and Siegel 2001). Alternately Keller (2003) suggests aligning a brand with a social cause can deepen a brand's emotional bond with consumers. In turn, stronger emotional connections strengthen customer relationships and brand equity. Thus, by virtue of its strengthened marketplace position and customer relationships, firm use of cause related marketing may contribute to improved profitability.

Expectations of a positive relationship between cause-related marketing and market value are also supported by findings across a growing body of research. These studies have largely employed consumer survey- and lab-based designs to assess how and under what conditions cause-related marketing helps to shape brand-relevant cognitions, perceptions, and/or behavioral intentions. Among those results, cause-related marketing has been found to engender favorable brand attitudes (e.g., Brown and Dacin 1997; Ellen et al. 2006) and attributions (e.g., Pracejus and Olsen 2004; Rifon et al. 2004), elevated brand consideration (e.g., Henderson and Arora 2010; Barone et al. 2000), increased loyalty (Van den Brink et al. 2006), stronger purchase intentions (Cornwell and Coote 2005), and willingness to pay more (e.g., Elfenbein and McManus 2010; Koschate-Fischer et al. 2012). A few studies have gone beyond mindset metrics to identify positive impacts of cause-related marketing on actual customer purchase behaviors. For instance, Andrews et al.'s (2014) findings from a large-scale field experiment of Chinese mobile phone customers indicated that cause-related marketing treatment significantly increased consumer likelihood of purchase for movie tickets. More recently, using grocery store panel data, Ballings et al. (2018) estimated that Yoplait experienced a 2.7% increase in customer profitability as the result of its annual breast cancer research campaign.

In sum, despite its prevalence in industry practice and a growing body of academic research, identifying the financial impact of cause-related marketing has proven elusive. Given strong conceptual disparities and the absence of convincing empirical evidence positively linking cause-related marketing to improved firm financial performance, we expect abnormal returns associated with cause-related marketing announcements to exhibit considerable variance. Therefore, based on the preceding discussion, we offer competing hypotheses regarding market response to cause-related marketing announcements.

H1a: Announcements of cause-related marketing campaigns will negatively affect abnormal returns.

H1b: Announcements of cause-related marketing campaigns will positively affect abnormal returns.

Influence of donation type on shareholder response to cause-related marketing announcements

In the course of implementing cause-related marketing campaigns, companies must decide not only which issues to support and how much to donate, but also the form by which they will contribute. For purposes of this study, we broadly categorize contributions into two types: monetary and in-kind. Monetary donations are defined as the direct transfer of cash or other financial assets to a cause. For instance, in the past, Apple has contributed 50% of its profits from the sale of specially licensed versions of its popular consumer electronics products to (Product) Red to combat AIDS in Africa. In-kind contributions include non-monetary gifts, such as products, know-how, and employee volunteerism. For example, in the wake of natural disasters, Home Depot commonly launches cause-related marketing campaigns that involve the donation of building supplies to members of affected communities. Home Depot also offers paid leave to employees who volunteer to contribute their time and expertise to affected communities.

All else being equal, we believe investors will respond more favorably to news of in-kind contributions (compared to a strictly financial contribution) as part of a cause-related marketing agreement. From a resource perspective, an in-kind donation offers a potentially higher return on marketing investment; while the donation is perceived by the public at its full market value, its impact upon firm financials is based on its cost to produce or deliver (Islam and Vate 2013). In some cases, an in-kind donation may be an efficient way to eliminate excess inventory in a way that can create tax benefits, thus optimizing the use of firm resources. Additionally, provision of know-how and employee time may lead to new human resource based advantages by improving employees' skills, increasing employee-company identification, strengthening affective organizational commitment, and raising retention levels (Guerreiro et al. 2016).

There is also evidence to suggest in-kind giving may boost stakeholder perceptions of firm status and concern for social welfare by eliciting stronger emotional responses. In general, in-kind resources (e.g., time) have been shown to trigger stronger emotional associations and moral identity, whereas gifts of money are linked with rational, economic value related associations (Vohs et al. 2006). For instance, Donnelly et al. (2017) show across a series of experiments that the giving of time and money are experienced differently by consumers. Giving time led donors to reflect on who they are, which positively impacted their moral self-regard. In turn, consumers felt happier giving their time, in part because the process of giving time feels more impactful than simply giving money. Within the context of corporate CSR, Ellen et al. (2000) contrasted retailer disaster relief efforts, finding that consumers view a company's collection of donated products to

be more effortful than a cash donation of equal magnitude. In-kind contributions may likewise affect other stakeholders. Madsen and Rodgers (2015), compared the amount of media attention received by firms that made cash or in-kind donations following natural disasters. Firms that made in-kind donation received significantly more media coverage, which partially mediated the relationship between donation amount and change in stock price.

Thus, in line with the RBV, there is a strong economic rationality argument favoring in-kind contributions. Alternately, use of monetary only contributions may raise agency concerns. In comparison to a monetary donation, firms making an in-kind contribution are better positioned to gain advantages in key resources, such as deeper employee commitment and company identification, stronger customer relationships, and improved brand image at a lower relative cost in comparison to a monetary donation of an equal amount. On the whole, the firm's stakeholders, including its customers, are likely to ascribe greater effort, morality, and genuine interest on the part of firms that donate in-kind, leading to more favorable brand image and positive attributions to the cause-related marketing effort. We, therefore, posit the following:

H2: In-kind donations (vs. monetary only) will be positively associated with abnormal returns to cause-related marketing partnership announcements.

Impact of firm reputation and slack resources on abnormal returns to cause-related marketing announcements

According to the RBV, competitive advantage derives from firm-specific resources that are rare and superior in use (Peteraf and Barney 2003). Through the process of competition, firms engage in a competitive race to develop and acquire superior resources compared to competitors and to close any resource gaps vis-à-vis its rivals. As such, RBV theorists have long held reputation as a valuable resource that can provide firms with competitive advantages and sustainable superior performance (Barney 2001). Reputation is defined as “a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals” (Fombrun 1996, p. 72). Based on this definition, reputational resources are characterized by time compression diseconomies and cannot be easily acquired in a competitive factor market. Moreover, since reputation is based on multiple stakeholders' perceptions of the firm's internal and external attributes, its attainment is causally ambiguous and may be difficult to imitate.

It stands to reason, then, that investors may view firms' cause-related marketing attempts, at least in part, in terms of managerial efforts to: (a) strengthen or leverage an advantage

in reputational resources, or (b) counteract a disadvantage in reputational resources (Hunt and Morgan 1995). In judging firm strategic actions with inherently uncertain outcomes, the market is likely to depend on signals like reputation as a contextual cue that informs its response (Elving 2013). In other words, reputation can be used as a risk-reduction mechanism that lessens information asymmetry for investors by signaling the quality of past firm decision-making (Houston 2003). Prior work has shown cognitive and affective components of corporate reputation positively affect financial performance, even after controlling for prior financial performance (Eberl and Schwaiger 2005). On the other hand, weak reputation firms that engage in cause-related marketing campaigns may be evaluated more skeptically by investors and other stakeholders (Elving 2013). Accordingly, we propose:

H3: Firm reputation will be positively associated with abnormal returns to cause-related marketing announcements.

Organizational slack is defined as a cushion of actual or potential resources which allow an organization to adapt successfully to internal pressures as well as to initiate changes in strategy with respect to the external environment (Bourgeois III 1981). Organizational theorists typically argue that despite its costs, the presence of resource slack buffers a firm's technical core from environmental turbulence and thus enhances firm performance (Cyert and March 1963). As a result, slack is thought to facilitate strategic behavior, allowing the firm to experiment with new strategies, such as introducing new products or entering new markets (Thompson 1967).

In examining the relationship between resource CSR and firm performance, a variety of scholars have suggested that firms engage in CSR *because* they are doing well financially (Kang et al. 2016). That is, superior financial performance provides firms with a financial cushion, providing managers with a reservoir of slack resources and incentive to help the firm meet a diversity of stakeholder expectations through CSR activities (Orlitzky et al. 2003). Such claims have found support in case studies and empirical research. Waddock and Graves (1997) reported that IBM engaged in significant CSR-related activities during economic prosperity, but cancelled many of those programs as the economy faltered. Chin et al. (2013) demonstrated that CEOs initiated CSR-related activities only as performance allowed. Moreover, research also shows that the presence of slack resources provides managers with greater freedom and flexibility with respect to investment decisions. For instance, McGuire et al. (1988) found that availability of resource slack provided managers greater flexibility to engage in discretionary spending, including CSR. Taken together, his line of reasoning suggests investors should be more receptive to cause-related marketing announcements made by firms that enjoy higher levels of resource slack. Therefore, we posit:

H4: Firm resource slack will be positively associated with abnormal returns to cause-related marketing partnership announcements.

Effects of industry dynamism on market response to cause-related marketing announcements

The environment of a firm is “the totality of physical and social factors that are taken directly into consideration in the decision making behavior of individuals in the organization” (Duncan 1972, p. 314). As such, the external environment represents a major source of contingencies faced by organizations and holds significant implications for firm strategy and performance (Tosi Jr and Slocum Jr 1984). From an RBV perspective, consideration of the firm’s environment is important to the analysis of firm resources and performance because different environmental contexts imply different resource valuations (Penrose 1959). In the present study, we focus on the effects of dynamism on changes in shareholder value resulting from cause-related marketing announcements. Dynamism reflects the unpredictability and volatility of industry change that heighten uncertainty of firms’ predictions (Aldrich 1979).

As market uncertainty increases, businesses are less able to accurately assess the potential impact of their decision making on future business activities or determine the viabilities of managerial alternatives (Milliken 1987). Thus, increasing levels of environmental dynamism reduce managerial access to knowledge needed to make critical decisions. This, in turn, reduces the stability and predictability of relations among firms and their constituents within an industry. It is then a logical inference to note varying degrees of environmental dynamism can have a differential impact on similar activities occurring across industries. Indeed, proponents of the RBV have emphasized a need for the inclusion of contingency perspectives in assessments of the competitive value of organizational resources and capabilities (Barney 2001).

As turbulent environments increase causal ambiguity, rivals will find it more difficult to imitate advantageous resources or resource bundles gained in the course of a cause-related marketing initiative (e.g., Eisenhardt and Martin 2000). For example, Miller and Shamsie (1999) demonstrated that knowledge-based resources in Hollywood studios generated greater competitive benefits only in an uncertain and risky business environment. We posit that in highly dynamic environments, a cause-related marketing partnership can enable the firm to access and deploy a relatively broader set of resources in response to changing conditions, including changes in stakeholder expectations. These resource bundles may be difficult for competitors to imitate and apply in a timely fashion. Thus, engaging in cause-related marketing and other forms of CSR offers a way for the firm to buffer itself from industry uncertainty. Prior empirical research from the CSR-CFP vein offers some support for this position. Goll

and Rasheed’s (2004) investigation of 159 manufacturers showed that the positive relationship between discretionary CSR and firm financial performance was strengthened in more dynamic contexts. Based on the preceding discussion, we expect the relationship between cause-related marketing announcements and shareholder value should be stronger for firms in more dynamic industries.

H5: Industry dynamism will be positively associated with abnormal returns related to cause-related marketing announcements.

Interaction effects of donation type and firm reputation

We expect that the effectiveness of in-kind donations in positively influencing abnormal returns will vary based upon a firm’s reputation. In particular, we draw on accessibility-diagnostics theory (Lynch Jr et al. 1988) to suggest the market will react more favorably to an in-kind donation made by a firm with a weaker reputation. That is, since strong reputation firms are already perceived more favorably, information related to the cause-marketing partnership is unlikely to be as diagnostic to consumers or investors in adjusting their views and expectations of the firm (Irmak et al. 2015).

The use of an in-kind donation, either by itself or with a corresponding monetary contribution, is indicative of stronger corporate involvement with the cause, relative to making a strictly financial contribution. Prior research suggests that consumers are likely to interpret a company’s level of involvement with the cause as an indication of its sincerity and genuine concern (Sagawa and Segal 2000). Such attributions are likely to play an important role in influencing market response to information pertaining to the cause-related marketing partnership. A company with a stronger reputation will garner more favorable intrinsic attributions solely on the basis of its extant reputation, making market reaction less sensitive to donation type. On the other hand, consumers and investors are more likely to be skeptical of the motivations underlying cause alliances involving weak reputation firms (Elving 2013). Thus, use of an in-kind donation by a weaker reputation firm is a stronger diagnostic cue, as it signals more genuine motives and a greater likelihood of media coverage (Madsen and Rodgers 2015). Therefore, we expect the use of an in-kind donation to more strongly increase abnormal returns for weaker reputation firms:

H6: Donation type will moderate the relationship between firms’ reputation and abnormal returns to cause-related marketing announcements, such that the positive relationship is weaker for in-kind donations.

Interaction effects of donation type and slack resources

We also expect that the impact of donation type on abnormal returns may differ based upon the availability of resource slack, such that the usefulness of in-kind contributions is stronger for firms with lower slack. Conversely, strong past performance by a firm should provide a buffer that leaves investors relatively less concerned over cause-related marketing initiatives involving monetary-only contributions. Past research has found that firms with less slack resources have less flexibility to take risks or innovate (Hambrick and Snow 1977; Moses 1992). Thus, investors make look at monetary-only CSR investments by firms lower in resource slack as more risky (Saeidi et al. 2015). Choosing to contribute in-kind, rather than monetarily, allows firms with limited slack to engage in cause-related marketing with less financial outlay, thereby reducing shareholder risk. Moreover, a firm that is low on cash resources may not necessarily be bereft of other types of resources; for instance, it might have excess inventory or employee time to contribute to a cause. Thus, use of in-kind contributions may allow a low-slack firm to optimize productivity while generating image-enhancing publicity (Madsen and Rodgers 2015). Based on this perspective, we expect to find:

H7: Donation type will moderate the relationship between firm resource slack and abnormal returns to cause-related marketing announcements, such that the positive relationship is weaker for in-kind donations.

Empirical context and methodology

Data and sample

We define the event of interest as a public announcement of a cause-related marketing partnership announced by any U.S. firm that had appeared in the Fortune Most Admired All-Star list at any time between 2005 and 2017. After screening out privately held and foreign-owned companies, this amounted to 62 focal firms.

The *Fortune* Most Admired All-Star list is compiled using a separate survey process from the Most Admired reputation scores and rankings more commonly used in past academic research. Whereas the *Fortune* reputation scores are compiled each year on the basis of responses from industry experts, the All-Star list is based on a separate survey in which more than 3000 respondents are asked to select from a list of the firm's scoring in the top 20% of the prior year's reputation rankings in naming the ten companies they admire most from any industry.

As the methodology used by *Fortune* in compiling its reputation scores and Most Admired list favors larger firms, use of this sample frame does constrain our ability to draw direct inferences regarding market response to cause-related marketing announcements by small companies and firms whose reputation falls below the industry median. However, we note that it was fairly common for firms in our sample to move in and out of the All-Star list from year to year. Moreover, there was ample variation of reputation scores for firms in our sample across industry and over time ($M = 6.94$, $SD = 0.90$). Thus, it may be reasonably argued that our sample frame provides for a stringent test of study hypotheses relating to reputation.

Next, we compiled a list of 366 cause-related marketing announcements by these firms over the same period. In order to identify the announcements of cause-related marketing activities we searched Lexis-Nexis, Factiva, newswire services, and websites of companies, causes, and non-profit organizations to identify news of cause-related marketing agreements. Use of multiple sources helped to ensure that we identified as many events as possible and enabled validation of the earliest public release of information. If there was uncertainty about the exact announcement date, it was excluded from the dataset.

Each announcement was carefully analyzed to make sure that the focal firm was pursuing a cause-related marketing strategy and not some other form of CSR. Our screening procedure was guided by a cause-related marketing typology detailed by Liu and Ko (2011). Events identified for inclusion in the study were required to meet criteria for at least one of the following four categories: sponsorship, transaction-based, joint-promotion, and donation in-kind. (see Appendix A for details).¹ Two trained graduate students independently coded each announcement to ensure that sponsor firms in our sample were clearly pursuing marketing objectives in their cause partnership. Interrater agreement was 96%. All disagreements were resolved through discussions between the coders. We also screened events for contemporaneous financial (e.g., quarterly reports, dividend announcements), management (e.g., executive management changes, mergers and acquisitions), and marketing (e.g., new product releases) announcements occurring within 2 days either side of the announcement. This resulted in the removal of 22 events from the dataset. The final dataset used for the event study analysis was composed of 344 cause related marketing announcements spread across 62 firms, 54 industries (SIC 4-digit), and 121 different non-profit organizations, foundations, and government agencies.

¹ Social marketing campaigns (e.g., Dove's "Real Beauty" campaign), corporate activism efforts (e.g., Starbucks' "race together" campaign), and use of celebrity endorsers associated with social causes in brand promotion (e.g., Nike's Colin Kaepernick advertisement) are not cause-related marketing by our definition and fall outside the scope of this research.

Event study

To test the proposed model, we evaluated the effect of cause-related marketing announcements on market performance (i.e., abnormal returns) as well as the conditional effects of donation type, firm reputation, organizational slack, and industry dynamism on the magnitude of associated abnormal returns. Since we are interested in the precise effects of cause-related marketing announcements, we utilized an event study methodology to assess the impact of cause-related marketing announcements with known date-stamps on subsequent changes in stock prices (Srinivasan and Hanssens 2009). Marketing researchers have applied event studies to assess the impact of internal firm announcements (e.g., product release, sponsorship, privacy data breaches) as well as external (e.g., mandatory recalls, market entry by new rival) events (Sorescu et al. 2007; Chen et al. 2009). We calculate the abnormal return for the stock of a firm i on day t as follows:

$$AR_{it} = R_{it} - E(R_{it}), \quad (1)$$

where R_{it} is the return realized by firm i on day t , and $E(R_{it})$ is the predicted return of the firm i on day t . The event date is labeled as time $t = 0$.

Market model In line with recent recommendations advanced in a comprehensive review of event study methodology (Sorescu et al. 2017) we selected the market model (MM) as our benchmark asset pricing model. Expected stock market returns were estimated over a period of 255 trading days, ending 46 days before the event date (see Chen et al. 2012):

$$E(R_{it}) = R_{ft} + \beta(R_{mt} - R_{ft}), \quad (2)$$

where R_{mt} is the average return of all stocks trading at time t , R_{ft} is the risk-free rate of return at time t , and β is the estimated risk factor.

Fama-French-Carhart four factor model In order to ensure event study results are not sensitive to the choice of benchmark model, we also use the Fama-French-Carhart four factor (FF4) model. According to this model, expected abnormal returns are calculated taking into account four distinct risk factors. In addition to β_1 (the risk factor from the market model), FF4 includes factor for size, value, and momentum:

$$E(R_{it}) = R_{ft} + \beta_1(R_{mt} - R_{ft}) + \beta_2(SMB_t) + \beta_3(HML_t) + \beta_4(UMD_t), \quad (3)$$

where R_{mt} and R_{ft} are as previously described, SMB_t is the difference between rate of returns of small- and large-market capitalization stock portfolios on day t (i.e., size factor), HML_t is the difference between

returns of high and low book-to-market stock portfolios on day t (i.e., value factor), and UMD_t is the momentum factor. In order to obtain potential dependent variables to test our theorized model, abnormal returns were aggregated to create cumulative abnormal returns (CARs) over several time windows surrounding the event (t_1, t_2).

$$CAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}. \quad (4)$$

Due to the fact that some information may reach some investors earlier than others and that relevant information may be released over a number of days, it is common practice to examine the significance and magnitude of effects across several time windows. In terms of selecting the appropriate window as a dependent variable for use in subsequent cross-sectional regressions, scholars typically examine the relative significance for various event windows across parametric and non-parametric significance tests (McWilliams and Siegel 1997), with a preference for shorter event windows to minimize the threat of potential confounds. For our analysis, all stock returns were obtained from the Center for Research in Security Prices (CRSP).

We estimated abnormal return for the day of announcement and the cumulative abnormal returns over event windows within 2 days either side of the announcement day. Days -2 and -1 were included to incorporate potential leaked information. Cause-related marketing initiative are the outcome of a strategic planning process; therefore, information of the impending partnership between the firm and the cause may be leaked or anticipated by some investors (McWilliams and Siegel 1997). It is also possible that the initial press announcement may not provide sufficient information for investors to make informed decisions (Wiles and Danielova 2009). For example, an initial press release may exclude key details, such as the length of commitment or the nature of the firm's contribution. Thus, in some instances, full information may not be available for several days, leading investors to subsequently adjust their expectations. In line with previous event studies in marketing (e.g., Borah and Tellis 2014), we investigated returns for windows that included several days either side of the event date to account for information leakage and the possibility that the market may not receive full relevant information on the day of the event (Barnett and King 2008).

The full model (Eq. 5), including all interaction effects, is specified as follows:

$$\begin{aligned} \text{Returns} = & \beta_0 + \beta_1 \text{InKind} + \beta_2 \text{Reputation} \\ & + \beta_3 \text{Slack} + \beta_4 \text{Dynamism} \\ & + \beta_5 \text{InKind} * \text{Reputation} \\ & + \beta_6 \text{InKind} * \text{Slack} \\ & + \beta_7 \text{Firm Size} + \beta_9 \text{Leverage} + \beta_{10} \text{Industry Concentration} \\ & + \beta_{11} \text{Munificence} + \beta_{12} \text{Multiple Year} \\ & + \beta_{13} \text{New Partnership} + \beta_{14} \text{Year Dummies} \\ & + \beta_{15} \text{Industry Dummies (SIC-2 digit)} + \varepsilon_1 \end{aligned} \quad (5)$$

Measures

Dependent variable Our dependent variable is change in shareholder value associated with the cause-related marketing partnership announcement. Based upon consistent results across multiple models, we chose abnormal returns associated with the announcement day (0, 0) as our dependent variable.

Independent variables In denoting the type of cause-related marketing contribution (i.e., monetary or in-kind), a dummy variable takes the value of 1 if an announcement was coded as involving the contribution of any type of in-kind resources to the cause. If there was no mention of the firm donating in-kind resources, the variable was coded as 0 (i.e., strictly a monetary contribution).

All other independent variables were lagged one year. We assess firms' overall reputation using ratings data reported in *Fortune's* annual America's Most Admired Companies survey. Each year, this survey polls more than 10,000 executives, directors, and security analysts to rate the largest companies in their own industry on eight dimensions on an interval scale ranging from 0 to 10. An overall reputation score is assigned to each company based on its average across the eight attributes. *Fortune* has conducted its survey annually since 1983, and it is well regarded by business experts. The survey has been used widely in academic research to assess the performance effects of firms' overall reputation and as well as its reputation in sub-categories, like innovation and CSR. Numerous studies in marketing and strategic management have reported evidence of reliability and validity of this data source (e.g., Chen et al. 2009; Cui and O'Connor 2012; Luo and Bhattacharya 2006; Wiles et al. 2010). Houston and Johnson (2000) acknowledge it as the best secondary data source.

Slack resources provides an organization with greater capacity to absorb environmental variation or buffer its technical core from environmental influences (Thompson 1967). Earlier research suggests firms invest in CSR because they are doing well financially. That is, a firm's decision to voluntarily engage in CSR excess cash (Chin et al. 2013). Thus, we measured slack using return on equity (Bourgeois III 1981; Litschert and Bonham 1978). Industry dynamism refers to the extent of unpredictable change in an organization's environment. Dynamism was measured by taking the standard error from a rolling five-year regression of industry sales on time, standardized by mean industry sales for that year (Raassens 2011).

Control variables

In the process of calculating abnormal returns for our event study, utilization of the FFM4 model eliminated the impact of

the several market factors on a firm's stock price volatility: change rate of a stock market index minus the theoretical rate of return attributed to an investment with zero risk, returns on a portfolio of small stock minus returns on large stocks, returns on a portfolio of stocks with high book-to-market ratio minus returns on a portfolio of stocks with low book-to-market ratio, and Carhart's price-momentum factor that captures one-year momentum in returns.

To account for other extraneous effects, several additional control variables were added to the regression. First, owing to the fact that large firms tend to exhibit greater return stability (Ben-Zion and Shalit 1975), we controlled for firm size, measured as the logarithm of total sales. Because the earnings stream of common shareholders becomes more volatile as debt-load increases, we account for financial leverage measured by the ratio of firm long-term debt to EBITDA. We also included industry munificence and competitiveness. Munificence, in general, refers to an environment's ability to support sustained organizational growth (Aldrich 1979). Earlier research suggests firms in low-munificent (hostile) environments emphasize conservation of resources and are less likely to engage in discretionary CSR (Goll and Rasheed 2004). Munificence was measured as the beta coefficient from the rolling five-year regression of industry sales on time, normalized by average industry sales for that year. We include industry competitiveness calculated using a Herfindahl-Hirschman Index (HHI), summing the squared market shares of all individual firms within an industry (4-digit SIC).

We also included two dummy-coded variables to indicate whether the announcement was indicative of (1) a new relationship or continuing one and (2) the start of a multi-year engagement between the two organizations. Finally, we included year and industry (2 digit SIC code) dummies to calibrate for yearly and industry-specific macroeconomic fluctuations not otherwise captured by our model (Campbell et al. 2008). An overview of all measures and associated data sources are provided in Table 2. Descriptive statistics and correlations of study variables are presented in Table 3.

Results

Market evaluation of cause-related marketing partnership announcements

We examined various event windows to empirically assess the extent of potential information leakage and/or dissemination. In support of H1a, all significant ARs and CARs for the days and event windows examined were negative. That is, on average, shareholders negatively evaluated the cause-related marketing announcements. In examining abnormal returns from the FF4 equal-weighted index model (Table 4, Panel A), we find average market response to a cause-related

Table 2 Summary of measures

| Variable | Operationalization | Data Source |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| CAR | Standardized cumulative abnormal stock return over an event window. | CRSP, Eventus |
| In-Kind | Coded 1 if release mentions in-kind contribution, 0 if monetary only. | Lexis-Nexis, Factiva, corporate press releases, websites. |
| Reputation | Firm's overall reputation score (lagged 1 year). | <i>Fortune's Most Admired Companies</i> rankings |
| Resource slack | ROE; Net income as a percentage of shareholder's equity (lagged 1 year). | Compustat (NI, SEQ) |
| Industry Dynamism | Industry sales regressed on time over 5-year rolling windows. Standard error of the regression coefficient is divided by the mean of industry sales. | Compustat (SALE) |
| Firm size | Logarithm of sales (lagged 1 year) | Compustat (SALE) |
| Leverage | Ratio of long term debt to invested capital (lagged 1 year). | Compustat (DLTT, ICAP) |
| Industry Competitiveness | HHI; square root of market share for all firms in 4-digit SIC (lagged 1 year). | Compustat (SALE) |
| Industry Munificence | Industry sales regressed on time over 5-year rolling windows and the slope of the regression coefficient is divided by the mean of industry sales (lagged 1 year). | Compustat (SALE) |
| Multi-year | Coded 1 if release mentions partnership will extend beyond one year; 0 if release stipulates single year term. | Lexis-Nexis, Factiva, corporate press releases, websites. |
| New Partnership | Coded 1 if release indicates start of new relationship between firm and cause; coded 0 if release describes cause campaign as part of established relationship. | Lexis-Nexis, Factiva, corporate press releases, websites. |

marketing announcement was negative (-0.21%) and significant ($t = -2.76, p < .01$) on the announcement date. In examining results for other days and windows within 2 days of the announcement, there is evidence to support negative effects for several days and windows prior to and after the event date. This is consistent with the premise that relevant information may be leaked before these types of announcements and that it can take several days in some instances before investors are in aware of all relevant information. Table 4 details the magnitude of abnormal returns and test statistics for selected windows surrounding the event date.

After determining the significance of the abnormal returns, a second stage of analysis was utilized in order to explain the magnitude of abnormal returns. Specifically, we investigated

the impact of donation type (i.e., monetary vs. in-kind), firm reputation, resource slack, industry dynamism, and controls in helping to explain the cross-sectional variation of abnormal returns registered by firms at the time of the cause-related marketing announcement. Due to missing data for some variables, the final sample size for the regression was 329 announcements. Owing to the fact that our data is nested by the firm, we ran our hypothesized model using the *xtreg* command in Stata 13.0, with "firmid" as our panel variable. First, we used the Hausman (1978) test to compare the fit of the fixed-effects model with that of the random-effects regression model. This statistic is distributed χ^2 , and a statistically significant value favors the fixed-effects model. Results from the Hausman tests indicate a random-effects model should be

Table 3 Correlations and descriptive statistics

| | M | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|----------------------|-------|------|-------|-------|--------|-------|--------|-------|-------|-------|-------|-------|------|
| 1 AR – Window (0, 0) | -0.16 | 1.66 | 1.00 | | | | | | | | | | |
| 2 In Kind | 0.53 | .50 | 0.26* | 1.00 | | | | | | | | | |
| 3 Reputation | 6.94 | .90 | 0.03 | -0.08 | 1.00 | | | | | | | | |
| 4 ROE | 0.23 | .71 | 0.14* | 0.01 | 0.05 | 1.00 | | | | | | | |
| 5 Dynamism | 0.19 | .03 | 0.17* | -0.02 | -0.15* | 0.12* | 1.00 | | | | | | |
| 6 Firm Size | 10.67 | 1.31 | 0.06 | 0.01 | 0.12* | 0.10 | 0.07 | 1.00 | | | | | |
| 7 Leverage | 0.42 | .98 | 0.07 | 0.02 | -0.01 | -0.04 | 0.09* | -0.07 | 1.00 | | | | |
| 8 Munificence | 0.40 | .27 | -0.07 | -0.01 | 0.03 | -0.04 | -0.66* | -0.05 | -0.10 | 1.00 | | | |
| 9 Competitiveness | 0.34 | .27 | -0.03 | -0.00 | 0.19* | 0.09 | -0.13* | 0.10 | -0.06 | 0.02 | 1.00 | | |
| 10 Multi-Year | 0.18 | .38 | 0.05 | 0.00 | 0.01 | 0.07 | -0.06 | -0.03 | 0.00 | 0.00 | -0.02 | 1.00 | |
| 11 New Partnership | 0.73 | .45 | 0.01 | -0.05 | 0.02 | -0.04 | -0.02 | -0.04 | 0.03 | -0.00 | -0.05 | -0.05 | 1.00 |

* $p < .05$

Table 4 Abnormal returns from cause-related marketing announcements

| A: Abnormal Returns, Equal Weighted Index (FF4 Model) | | | | |
|----------------------------------------------------------|--------|----------|-------------|---------|
| Windows | CAR | Pos: Neg | t-Statistic | Rank Z |
| (0,0) | -0.21% | 151: 193 | -2.76** | -1.78 |
| (-1,0) | -0.14% | 169: 175 | -1.36 | -1.36 |
| (0,1) | -0.29% | 151: 193 | -2.73** | -1.67 |
| (0, 2) | -0.27% | 165: 179 | -2.05* | -1.57 |
| (-2, 3) | -0.40% | 153: 191 | -2.16* | -1.57 |
| B: Abnormal Returns, Equal Weighted Index (Market Model) | | | | |
| Windows | CAR | Pos: Neg | t-Statistic | Rank Z |
| (0,0) | -0.16% | 154: 190 | -1.97* | -1.10 |
| (-1,0) | -0.09% | 164: 180 | -0.79 | -0.37 |
| (0,1) | -0.23% | 169: 175 | -2.05* | -0.17 |
| (0, 2) | -0.19% | 172: 172 | -1.36 | -0.50 |
| (-2, 3) | -0.25% | 166: 178 | -1.30 | -0.15 |
| C: Abnormal Returns, Value Weighted Index (FF4 Model) | | | | |
| Windows | CAR | Pos: Neg | t-Statistic | Rank Z |
| (0,0) | -0.24% | 141: 203 | -3.27** | -2.96** |
| (-1,0) | -0.21% | 160: 184 | -2.03* | -0.99 |
| (0,1) | -0.32% | 155: 189 | -3.14** | -1.45 |
| (0, 2) | -0.30% | 156: 188 | 2.38* | -1.34 |
| (-2, 3) | -0.51% | 148: 196 | 2.89** | -2.20* |
| D: Abnormal Returns, Value Weighted Index (Market Model) | | | | |
| Windows | CAR | Pos: Neg | t-Statistic | Rank Z |
| (0,0) | -0.19% | 148: 196 | 2.53* | -2.12* |
| (-1,0) | -0.12% | 171: 173 | -1.17 | -0.37 |
| (0,1) | -0.26% | 171: 173 | -2.43* | -0.37 |
| (0, 2) | -0.22% | 169: 175 | -1.72 | -0.15 |
| (-2, 3) | -0.35% | 157: 187 | -1.89 | -1.14 |

** $p < .01$

* $p < .05$

preferred in examining predictors of abnormal returns for the (0, 0) event window ($\chi^2_{(22)} = 21.46, p = .49$).

Table 5 presents results from a main effects and interaction effects model using abnormal returns for two separate panels Panel A presents results with the day of the announcement (0, 0) as the dependent variable; Panel B provides results with a window covering the two days including the announcement date as the dependent variable (0, +1).

All statistics used for hypothesis testing and reported in-text are from the Panel A interaction effects model. First, in examining the appropriateness of random effects regression model, we note the proposed model was significant (Wald Chi-Square $(51) = 109.87, p < .001$) with an r-squared value of 0.28. This amount of explained variance in abnormal returns is consistent or higher than that found in similar event studies published in the literature.

How do donation type, firm, and industry characteristics influence market evaluation of cause-related marketing partner announcements?

In testing the impact of donation type on abnormal returns (H2), we find a significant and positive estimate ($\beta = 5.15, z = 3.58, p < .01$), indicating investors strongly favor in-kind contributions above strictly monetary-based arrangements.

H3 proposes that abnormal returns to cause-related marketing partnership announcements will be more positively pronounced for firms with stronger reputations. In line with this expectation, reputation is positively associated with abnormal returns ($\beta = 0.55, z = 3.14, p < .01$). Thus, H2 and H3 are supported. In support of H4, we note a positive and significant effect of financial slack on abnormal returns ($\beta = 0.35, z = 2.61, p < .01$), indicating investors respond more favorably to announcements made by firms with greater slack resources. H5 suggests that the market will respond more favorably to cause-related marketing announcements by firms in more dynamic environments. We found the main effect of dynamism to be significant and positive, corresponding with our expectation ($\beta = 0.55, z = 3.14, p < .01$).

Does a firm’s reputation or level of slack resources matter in determining whether a firm should commit in-kind or monetary resources to a cause?

We next examined whether there was a significant negative interaction between in-kind contribution and firm reputation. Specifically, H6 proposes that the benefits of in-kind donation would be weaker for a firm holding a stronger reputation, since information relating to a cause-related marketing campaign is more diagnostic in evaluating a weaker reputation firm. In support of this hypothesis, we find a significant negative parameter test result ($\beta = -0.57, z = -2.75, p < .01$) for the In-Kind*Reputation interaction. Thus, H6 is supported. Finally, we tested H7, which posted a negative interaction effect between in-kind contribution and a firm’s slack resources. That is, is the market is more receptive to monetary (in-kind) donations made by firms that have greater (lower) financial slack? Consistent with our expectations, the estimate for the In-Kind*Slack interaction is negative and significant ($\beta = -0.95, z = -2.00, p < .05$), upholding H7.

Robustness checks

We performed several additional analyses to assess the robustness of study results. First, we re-ran the event study using equally-weighted and value-weighted models, as well as with and without the FF4 components (see Table 4, Panels B, C, and D). Without exception, all models point to the negative and significant ARs on the day of the announcement. In some cases, several longer windows were also significant with larger negative CARs. This opens the possibility that the effects of the announcement on market value may be more pronounced than reported earlier in the paper. In all cases, however, the strongest single-day response was on the day of the announcement, which bolsters confidence in our event screening procedures.

We also checked for anomalies in investor reaction to news of the cause-related marketing campaign, such that might

Table 5 Effects of donation type, firm, and industry on shareholder value

| | | Model 1 (Main Effects Only) | | Model 2 (Interaction Effects) | |
|-------------------------------|----------------|-----------------------------|------|-------------------------------|------|
| | | Estimate | S.E. | Estimate | S.E. |
| Panel A: Window (0, 0) | | | | | |
| Constant | | -11.41 ** | 3.54 | -14.15 ** | 3.58 |
| Main Effects | | | | | |
| In Kind | H ₂ | 0.98 ** | 0.20 | 5.15 ** | 1.44 |
| Reputation | H ₃ | 0.20 | 0.12 | 0.55 ** | 0.17 |
| Slack | H ₄ | 0.27* | 0.13 | 0.35 ** | 0.13 |
| Dynamism | H ₅ | 20.93 ** | 7.85 | 20.79 ** | 7.70 |
| Interaction Effects | | | | | |
| In Kind X Reputation | H ₆ | – | – | - 0.57 ** | 0.21 |
| In Kind X Slack | H ₇ | – | – | - 0.95 * | 0.47 |
| Controls | | | | | |
| Firm size | | 0.33 | 0.16 | 0.36 * | 0.15 |
| Leverage | | - 0.13 | 0.08 | - 0.09 | 0.08 |
| Munificence | | 4.99 | 3.66 | 4.42 | 3.60 |
| Competitiveness | | - 1.55 | 0.71 | - 1.58 * | 0.69 |
| Multi-Year | | 0.19 | 0.24 | 0.13 | 0.23 |
| New Partnership | | 0.08 | 0.20 | 0.06 | 0.20 |
| Year Dummies ^a | | – | – | – | – |
| Industry Dummies ^b | | – | – | – | – |
| | | R ² = 25 | | R ² = .28 | |
| Panel B: Window (0, 1) | | | | | |
| Constant | | - 7.09 ** | 2.70 | - 8.83 ** | 2.69 |
| Main Effects | | | | | |
| In Kind | H ₂ | 0.85 ** | 0.15 | 3.33 ** | 1.08 |
| Reputation | H ₃ | 0.23 * | 0.10 | 0.45 ** | 0.13 |
| Slack | H ₄ | 0.38 * | 0.10 | 0.44 ** | 0.09 |
| Dynamism | H ₅ | 8.81 | 5.91 | 8.51 | 5.77 |
| Interaction Effects | | | | | |
| In Kind X Reputation | H ₆ | – | – | - 0.33 * | 0.15 |
| In Kind X Slack | H ₇ | – | – | - 0.77 * | 0.35 |
| Controls | | | | | |
| Firm size | | 0.23 [†] | 0.13 | 0.27 * | 0.12 |
| Leverage | | 0.02 | 0.06 | 0.04 | 0.06 |
| Munificence | | 2.42 | 2.75 | 1.87 | 2.69 |
| Competitiveness | | - 1.02 [†] | 0.57 | - 1.05 * | 0.52 |
| Multi-Year | | 0.21 | 0.18 | 0.17 | 0.18 |
| New Partnership | | - 0.10 | 0.16 | - 0.11 | 0.15 |
| Year Dummies ^a | | – | – | – | – |
| Industry Dummies ^b | | – | – | – | – |
| | | R ² = 29 | | R ² = .31 | |

** $p < .01$ * $p < .05$ † $p < .10$ ^{a, b} No Year or Industry Dummies were Significant

occur if investors underreact or underappreciate such information and its long-term implications (Jacobson and Mizik 2009). Long-horizon abnormal returns associated with an event, if they occur, provide evidence of investor mispricing (Wiles et al. 2010). Using the calendar-time portfolio method, we analyzed abnormal returns for the 6- and 12-month post-event periods. Long-horizon abnormal returns are observed to be non-significant over both the 6-month ($t = -0.81$) and 12-month ($t = -0.36$) postevent periods analyzed across our sample. Thus, we conclude market response to cause-related marketing seems to be captured in the period surrounding the announcement. We find no evidence of investor mispricing.

Announcements of new cause-related marketing partnerships, as opposed to continuation of an existing campaign, may be more informative to the market as this information is unexpected. To ensure that the event study results are not being driven by outlier campaign continuation announcements, we re-ran the event study using only new

announcements. Test statistics (cross-sectional $t = -2.16$, $p < .05$, Patell $z = 1.65$, $p < .10$) for the day of the announcement were consistent in magnitude and significance as results from the full set of announcements presented in Table 4. In fact, if anything, examination of parametric and non-parametric significance tests for several longer event windows suggests that the negative response may somewhat more pronounced in the case of new cause partnership announcements (see Table 6).

Next, to test the robustness of our regression results, we ran regression models without controls. All results from this analysis are consistent with those reported in Panel A that included the control variables. Finally, instead of using abnormal returns for the day of the event as our dependent variable, we re-estimated Eq. 1 using CARs for a two-day (0, +1) event window (see Table 5, Panel B). First, we re-ran the Hausman test and again found that the random effects model was appropriate ($\chi^2_{(22)} = 30.31$, $p = .11$). Regression results from the

Table 6 Abnormal returns from new cause-related marketing announcements only

| Windows | CAR | t-Statistic | Rank Z |
|---------|--------|-------------|---------|
| (0, 0) | -0.21% | -2.16* | -1.54 |
| (0, +1) | -0.18% | -2.18* | -1.67 |
| (0, +2) | -0.40% | -2.55* | -2.65** |
| (0, +3) | -0.46% | -2.75** | -2.71** |
| (0, +4) | -0.50% | -2.47* | -2.81** |

* $p < .05$ ** $p < .01$

Panel B interaction model are consistent with Panel A, with the exception of a non-significant result for dynamism. Thus, findings for H5 may be better characterized as mixed. In total, however, results from Panel B bolsters confidence in our theorized model.

Discussion

In this paper, we provide the first examination of how cause-related marketing influences shareholder value. Using a sample of large, publically-traded U.S. firms, we investigate how donation characteristics along with firm characteristics and industry contexts influence changes in shareholder value arising from cause-related marketing initiatives. While our results show the overall effects of cause-related marketing announcements on firm value are negative and significant, there is substantial variation in market response with 41–45% of firm events showing positive abnormal returns on the announcement day. Results of our subsequent cross-sectional regression highlight the significance of donation type (monetary or in-kind), the firms' reputation, slack resources, and industry dynamism as important factors that influence the cause-related marketing to shareholder value relationship. Taken together, the results reveal the importance of (1) how firms choose to donate to causes, (2) the firm's reputational and slack resources at the time of the campaign, and (3) industry dynamism.

Theoretical implications

While a number of earlier marketing studies have examined consumer response to cause-related marketing, this is the first to examine how investors respond to cause-related marketing announcements. As such, study findings broaden understanding of how cause-related marketing impacts firm performance. Notably, while prior consumer surveys and lab studies have generally highlighted the positive value of cause-related marketing, our event study results suggest a more cautious and thoughtful perspective may be called for in actually planning

and executing these campaigns. Investors appear to be much more discerning and critical of cause-related marketing activities. In particular, the strong effects of donation type indicates that shareholders take into account key details of the cause-related marketing initiative in adjusting expectations of future cash flows.

Additionally, this research contributes to the broader literature that has examined financial performance effects of corporate social performance as well as the impact of discrete CSR-related activities. The term CSR represents a breadth of initiatives, which can differ widely in terms of their visibility and importance to different stakeholder groups. Inconsistent CSR-financial performance results from earlier work may be due, at least in part, to reliance on overly broad conceptualizations and operationalizations of these activities into a single measure of corporate social performance (Mishra and Modi 2016). Thus, the present study fits the need for research that isolates the performance effects of specific CSR-related actions on performance metrics that are meaningful with respect to the views of salient stakeholders. Our focus on shareholder wealth effects of cause-related marketing announcements captures investor response (a critical stakeholder group for public firms) to perhaps the most common form of corporate philanthropy (Peloza and Shang 2011). As such, the study and its results complement prior research and extends understanding in this area.

The first key finding of this research is that the announcement of cause-related marketing campaigns has a significant and negative impact on shareholder value. Market response to these events indicate that shareholders, on average, may be skeptical of the potential for these initiatives to positively alter future cash flows and perhaps feel that these expenditures are diverting resources from more productive uses. However, regression results for H2 show that investors make a clear distinction between the announcement of monetary and in-kind donations.

Study findings relating to donation type provides valuable insight into how investors evaluate cause-related marketing investments. Our results indicate that in-kind donations attenuate the negative response from investors to news of cause-related marketing campaigns. In order to gain a better understanding of this effect, we conducted several post hoc analyses in which we ran event studies for cause announcements that fell into one of three categories: (1) monetary-only, (2) monetary and in-kind, or (3) in-kind only. Full results of this analysis are provided in Table 7. In examining market response to cause-related marketing announcements that entail transfer of monetary resources-only, there is a strong and dramatic decrease in stock prices in the wake of the announcement, with a - .51% hit to stock prices on the event day and a combined - .76% over the (0, +1) window. Conversely, market response to events

Table 7 Abnormal returns by donation type

| Event Window | Monetary Only (<i>n</i> = 157) | | | Monetary and In-Kind (<i>n</i> = 104) | | | In-Kind Only (<i>n</i> = 83) | | |
|--------------|------------------------------------|----------|----------|-------------------------------------------|----------|------|----------------------------------|----------|-------|
| | Returns | Pos: Neg | t | Returns | Pos: Neg | t | Returns | Pos: Neg | t |
| (0, 0) | −0.51% | 55: 102 | −4.76*** | 0.10% | 52: 52 | 0.74 | −0.01% | 44: 39 | −0.07 |
| (−1, 0) | −0.54% | 66: 91 | −3.25** | 0.23% | 59: 45 | 1.24 | 0.13% | 44: 39 | 0.62 |
| (0, 1) | −0.76% | 50: 107 | −4.94*** | 0.18% | 57: 47 | 0.95 | 0.00% | 45: 38 | 0.02 |
| (−1, 1) | −0.78% | 58: 99 | −4.16*** | 0.31% | 57: 47 | 1.36 | 0.14% | 49: 34 | 0.56 |
| (−2, 2) | −1.07% | 51: 106 | −4.40*** | 0.28% | 55: 49 | 0.94 | 0.53% | 51: 32 | 1.64 |
| (−2, 3) | −1.27% | 49: 108 | −4.80*** | 0.23% | 56: 48 | 0.70 | 0.47% | 48: 35 | 1.34 |

****p* < .001***p* < .01

which feature an in-kind plus monetary or in-kind only contribution are mildly positive on and around the event date for most windows examined. This finding suggests that investors do rely on detailed information from press releases and other news sources when updating their expectation of future firm performance derived from cause-related marketing and other CSR investments.

A second key finding relates to the differential response by investors to cause-related marketing campaigns announced by firms with stronger reputations. Adopting a RBV perspective, one explanation is that the cause-related marketing campaign may result in access to new resources that complement reputation. Another viable explanation—and one that is not mutually exclusive from the first—is that the market sees this type of CSR activity as a form of insurance, protecting the firm's reputational resources in the wake of a bad act or accident involving the firm or its employees (Godfrey 2005). Thus, a cause-related marketing investment by a firm with a strong reputation may be simultaneously seen as an offensive strategy, in that it helps the firm leverage an existing resource, or as a strong defensive strategy, in that it enables the firm to protect valuable reputational resources from encroachment by firm competitors. In addition, we found a significant negative interaction between reputation and in-kind donation and firm reputation, which implies information relating to the contribution may be more pertinent to consumers and investors in updating their views of low reputation firms.

While previous literature has examined if slack resources make firms more likely to engage in CSR (e.g., Waddock and Graves 1997), the present research uncovers another important role that slack resources play in the CSR domain, through providing diagnostic information to stockholders. Specifically, study results suggests the presence of resource slack signals

managerial capability, giving investors greater confidence in discretionary spending decisions made by firm managers. Conversely, investors responded negatively to cause-related marketing programs from low resource slack firms. This relationship was mitigated (exacerbated) when the firm's contribution consisted of in-kind (monetary) resources.

The environment a firm operates within also influences how investors evaluate their cause-related marketing announcements. Our results suggest that investors perceive the potential value of resources gained through cause-related marketing initiatives to be most useful for firms operating in dynamic markets. It may be that the cause-related marketing is viewed as providing the firm with a competitive edge, a point of differentiation in markets where rival brands are not easily discernible. Alternately, cause-related marketing may be viewed as insulating the firm against changes in customer preferences wrought by rapid technology shifts and the emergence of new competitors.

Implications for managers

We offer several valuable insights for managerial practice as well. This research demonstrates that investors evaluate cause-related marketing program features and incorporate public information related to cause-related marketing announcements when forecasting the future firm cash flows. First, the strongly negative abnormal returns to monetary-only cause-related marketing partnerships suggests that it may be useful for marketing managers to more deeply consider cause program design. As such, study results suggest incorporating in-kind contributions into the cause partnership helps to show firm commitment and may bolster investor perceptions that the cause partnership reflects is part of a well-conceived CSR strategy. Even for consumer product

brands that tend to utilize transaction-based frameworks, it may make sense to also incorporate some form of in-kind component, like employee volunteerism, to placate potential investor concerns. Research shows that consumers are likely to view in-kind contributions, such as employee effort or supplies, to represent a deeper level of involvement with the cause as opposed to simply writing a check (Ellen et al. 2006). Firm stakeholders, including shareholders, are more inclined to view the firm as intrinsically motivated in their engagement with the cause and respond more favorably to messaging associated with the cause-related marketing campaign.

Second, while prior research has shown media coverage has been shown to influence stock response of CSR (Madsen and Rodgers 2015), findings from our study show that the content of information channeled to investors through press releases and media sources may be just as important. Thus, managers should carefully consider how they choose to promote their cause initiatives and what information should be incorporated in press releases and associated promotions. As higher levels of resource slack mitigate the overall negative average response to cause-related marketing, it may make sense for firms to include positive information about recent financial performance in their cause-related marketing press releases. Similarly, the positive relationship between reputation and shareholder response implies marketing communications may be able to mitigate negative shareholder responses simply by integrating information that emphasizes firm status. For instance, executives might highlight the firm's leading status in its industry or community (e.g., relevant awards, rankings) when talking about how the cause campaign will help the organization fulfill obligations to relevant stakeholders. Conversely, if firms have lower reputations or limited resource slack, then it becomes even more critical to promote in-kind elements of the campaign.

Limitations and suggestions for further research

As with any research, there are trade-offs that limit the contribution to the study and provide rich grounds for future research opportunities. First, our research design and event study resulted in the examination of firms that were traded on U.S.-based stock exchanges. Although this may limit the generalizability of our approach, it does not affect the validity of the findings (Madden et al. 2006). Consumers and investors across the globe may hold different views toward CSR in general as well as on specific activities like cause-related marketing. There may be different institutional and regulatory structures in place that influence how such

initiatives are structured or enacted. Therefore, future research might investigate the shareholder wealth effect of cause-related marketing events made by international firms using data from foreign stock exchanges.

Additionally, we limited our sample to cause-related marketing announcements made only by the 62 U.S. traded public firms that had appeared in *Fortune's* Most Admired All-Stars list at some point between the years 2005–2017. As such, it may be argued that our sampling approach favored inclusion of larger firms and firms with stronger reputations. At the same time, any range restrictions related to reputation represent a conservative test of our reputation-related hypotheses. The fact that we found significant results with the sample suggests that the inclusion of lower reputation firms in a future study may produce even stronger effects. This is certainly a valid aim of future study. A similar limitation relates to the finding that reputation interacts with donation type in predicting investor response to cause-related marketing. It seems that lower reputation firms benefit more from in-kind donations. However, *Fortune* publishes scores only for those firms that exceed the 50% percentile of evaluated firms within a given sector. So, any analysis of these effects for firms below the median reputation level must rely on another data source or research design. Thus, future research should examine this relationship for every level of firm reputation.

Moreover, while this study clearly highlights the importance of donation type in shaping market response to cause-related marketing information, many important questions remain. However, in-kind contributions may take many different forms. Does the market respond differently to in-kind donations consisting of a firm's products as opposed to employee time and expertise? Also, while the current research controlled for overall industry competitiveness, it did address how a focal firm's competitors, more specifically, respond to news of a cause-related marketing initiative. Thus, it may be useful for future research to examine the timing, magnitude, and nature of rivals' cause-related marketing activities. Finally, literature from the sponsorship and celebrity endorsement domains would suggest that characteristics of the sponsored cause may also be highly influential in driving consumer and investor response. New research that integrates features of the cause organization along with sponsor firm characteristics may produce interesting insights into partner selection in the context of cause-related marketing.

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Appendix A

Table 8 Type of cause-related partnership *

| Type | Description | Example from dataset |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sponsorship | A company supports an event, challenge, or other cause activity. | In 2015, FedEx announced they would be the title sponsor for the St. Jude Classic golf tournament. |
| Transaction-based | A company contributes to a cause based on an action taken by the consumer. This could be a purchase, social media share, etc. | In 2011, Apple announced a new (RED) product. A portion of the sales price of each item sold was donated to the Global Fund. |
| Joint-Promotion | A company supports and promotes a campaign or program in conjunction with a cause. | In 2005, AT&T and the National Arbor Day Foundation jointly announced and promoted a new campaign where AT&T contributed \$1 for each person that opted out of paper statements. The National Arbor Day Foundation also gave AT&T the Promise to the Earth Award. |
| Donation In-Kind | A company makes a non-monetary contribution to a cause. This could be products, employee time, services, etc. | In 2015, Amazon announced their donation of e-readers to numerous organizations across the world. |

*Typology and definitions from Liu and Ko (2011)

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