Big business takes heart

ADS TOUTING GOOD CORPORATE CITIZENSHIP ARE EVERYWHERE. BUT DO COMPANIES ACTUALLY BENEFIT FROM THE GOOD WILL THEY GENERATE?

MARKETING PROFESSOR LEADS THE INVESTIGATION TO LINK BRANDING, CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

Not long ago, corporate social responsibility (CSR) was largely the province of a select few companies whose leaders had a particular flair for activism or whose products appealed to socially conscious consumers. But after a wave of corporate ethics scandals, a nationwide elevation in environmental awareness and a political push for stricter corporate governance, businesses are paying a lot more attention to how they operate.

Today, we expect companies to have a heart as well as a formula for maximizing profits — and many have taken note, embracing CSR activities aimed at making their businesses "green," improving the communities where they are based and increasing workplace satisfaction.

CSR has become a hot topic, and many businesses have committed to making it part of their identities. What's less clear is whether this touchy-feely approach touches the bottom line.

Binghamton University marketing professor Manoj Agarwal, whose award-winning work has examined branding's impact on financial performance, is seeking to answer this question through important new research.

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The very nature of CSR activity, Agarwal says, flies in the face of conventional economic wisdom, which denotes that companies are in business purely to make money. Because expenditures set aside for CSR activities naturally take dollars away from a different area, many economists view CSR programs as a waste of shareholder money. A newer, opposing perspective is that companies are corporate citizens, so shareholders are not necessarily the only stakeholders involved.

"Corporations are becoming a major part of most economies in the world, and their actions affect millions of people, based on what kind of products they sell, where they buy from and what practices they use toward employees," Agarwal says. "It is very limiting to say a firm is only responsible to shareholders because they are the ones who are financially invested."

Agarwal's current research should shed some much-needed light on the question of whether embracing this stakeholder theory — and advertising it — is a smart financial move. Along with Guido Berens of Erasmus University in Rotterdam, he is investigating how a company's branding strategy affects the link between CSR activity and financial performance. The research is funded by the Marketing Science Institute.

It is not hard to see why branding makes good fodder for studying CSR's impact. A recent issue of *Business Week* provides a perfect example of the depth and breadth of companies embracing socially conscious advertising. On the magazine's pages, readers find ads from Siemens, AT&T, Hewlett-Packard and Exxon Mobil promoting CSR activities ranging from the use of recycled materials in manufacturing to improving corporate diversity and helping to cure malaria in Africa. Obviously, companies want people to know about these activities.

"This kind of advertising is very topical right now," Agarwal says. "Companies may be thinking, 'Everyone is doing it so we should, too.' But I am not sure how much these firms have analyzed their ads' effectiveness."

In the academic arena, research has only recently begun to look at the correlation between marketing and the bottom line. To date, analysis on the topic has yielded mixed results. "Some studies — maybe 60 percent — show a positive link between CSR activity and shareholder performance; about 10 to 15 percent show no link, about 10 to 15 percent show mixed links and the rest show a negative link," Agarwal says.

Agarwal's previous research has shown that, overall, companies following a "corporate brand" strategy tend to have better shareholder value in the marketplace than firms using a "house of brands" strategy. Corporate brands are those, like Kraft Foods, whose brand name appears on all its products, while "house of brands" companies — such as Yum! Brands Inc., which owns KFC, Taco Bell and Pizza Hut — do not use the firm name in advertising or packaging.

That corporate brands fare better financially is fairly intuitive. "Economic theory suggests if more people know about the firm, more people are going to buy the stock. That creates more liquidity for the company, reduces cost of capital and brings better returns," Agarwal explains.

Applying the same approach to CSR activities, it is reasonable to expect that corporate-brand firms will have more success than house-of-brands firms in generating good will by positioning themselves as socially responsible companies. When Kraft showcases its devotion to environmental programs or employee diversity, consumers are likely to take notice of it because they know the company well through its products. In contrast, any CSR activities of Yum! Brands as a company would be more likely to go unnoticed by consumers as this name means little to them, Agarwal says. Thus Kraft will get more bang for its buck.

To research this hypothesis, Agarwal and Berens have obtained historical data on the CSR activities of about 650 U.S. and 530 European firms over the last 10 years, which they are analyzing and cross-checking with corresponding financial and branding data.

Though Agarwal is still working through the modeling stage and applying econometrics to the data, his preliminary results are supportive. "We are finding that our initial hypothesis, which says the type of branding strategy a firm uses will make a difference on the link between CSR activity and the bottom line, is in fact coming out to be significant," he says.

Agarwal also expects to find that CSR activities aimed at consumers and shareholders have a stronger effect on financial performance than activities aimed at other stakeholders, such as employees and communities. If branding a company's CSR activities motivates consumers to buy more of that company's products, it creates liquidity and higher value for the firm. Similarly, shareholders' actions directly affect how a company fares on the stock market, so their endorsement of a company's efforts to be a good corporate citizen have a direct impact on financial performance.

Companies that focus CSR branding activities toward employees or communities, on the other hand, are less likely to reap as much of a benefit on their balance sheets. While it can result in more motivated and committed employees, their impact on the bottom line is still an open question.

"Something like being a good employer is not usually public," Agarwal says. "Unless you work for the company or live nearby, you probably don't know about those activities, so they don't create as much of a financial reward."

In addition to bringing to the marketing literature a greater understanding about the links among branding, CSR and financial performance, this research holds important value for corporate America. What marketing executive wouldn't want the ability to prove that a branding strategy has a positive impact on shareholder value while improving intangible assets such as corporate reputation?

"Knowing which types of CSR activities are effective will help managers allocate resources more efficiently. It will also help to comprehensively measure the effectiveness of CSR expenditures targeted at consumers and other stakeholders," Agarwal says. "Basically, we think companies that perform CSR activities and tell people about it are going to get more bang for the buck." ■

— Amy Roach Partridge