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**ESSAYS ON CORPORATE SOCIAL PERFORMANCE:
AN EXAMINATION OF THE ANTECEDENTS AND CONSEQUENCES
OF CORPORATE SOCIAL PERFORMANCE**

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AN EXAMINATION OF THE ANTECEDENTS AND CONSEQUENCES
OF CORPORATE SOCIAL PERFORMANCE**

by

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Dissertation

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There is growing evidence that a vast majority of CEO's believe that sustainability-related issues are having or will soon have a material impact on their firms. Nearly all of the academic literature on the firm level impacts of corporate social performance (CSP) has focused on looking for a universally positive or negative effect of CSP on corporate financial performance (CFP). Recent literature in the CSP domain, however, has presented two questions that have been under-researched with respect to CSP by firms: 1) What are the processes and motivations that underlie the inclusion of CSP in firm strategic decisions? and 2) Why do some firms generate different market returns from their CSP? The present research consists of two studies that focus on developing an understanding of these two questions.

The first study uses a Contingency Theory approach and proposes that several organizational, market, customer, environmental and competitive characteristics of a firm predict a firm's level of CSP. Findings based on a longitudinal, multi-industry sample of 447 firms over the period from 2000 to 2007 show that firms that have a corporate branding strategy, serve consumer markets, and have a greater degree of globalization have higher levels of CSP. Finally, this study also finds that higher levels of CSP relative to a firm's industry result in higher levels of firm intangible value (Tobin's q).

The second study examines the following: 1) Does CSP history moderate the relationship between CSP and CFP? and 2) Is there a CSR Black Hole with respect to a firm's history of negative behaviors? That is, does past negative social performance of the firm negate potential benefits from current period changes in positive social performance? Using the Flow Signals framework proposed by Dekinder and Kohli (2008), this study finds that a (1) history of growth in negative CSP, (2) trend toward increasing negative CSP, or (3) more inconsistent history of positive or negative CSP (reversals) decrease the returns to positive social performance. This study also finds evidence of a CSR Black Hole, but show that firms may be able to exit this by consistently managing their social performance over time.

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CHAPTER ONE: INTRODUCTION

Background

The topics of sustainability and concerns about firm corporate social responsibility (CSR) have grown to become issues of critical importance to business. There is evidence that nearly all firms believe that sustainability-related issues are having or will soon have a material impact on their firms and, as a result, some 92% of firms have begun addressing CSR and sustainability issues in some way (Berns et al. 2009). For the purpose of the studies presented in this dissertation, it is important to make a distinction between two concepts: CSR and corporate social performance (CSP). Specifically, for the present studies, CSR is considered an overarching goal or philosophy that a firm takes with respect to its social and environmental impacts, while CSP is an outcome measure of the implementation of policies and programs intended to reach the overarching goal of CSR. In the two studies presented here, I am most interested in the observable levels of social performance for a firm, as this is the outcome that can be seen in the market environment.

Research on CSP in the marketing and management literature has largely been focused on the impacts of CSP or of a firm's socially responsible actions on consumer response to CSP. Some key findings in the marketing and management literature with respect to the impact of CSP include higher levels of customer identification with the company (Sen and Bhattacharya 2001); improved company evaluations that can lead to improved product attitudes and evaluations (Berens, van Riel, and van Bruggen 2005;

Brown and Dacin 1997); increased differentiation from competition (Meyer 1999); the development of a reservoir of “goodwill” (Dawar and Pillutla 2000) or “moral capital” (Godfrey 2005), which generates an “insurance-like” benefit (Godfrey, Merrill, and Hansen 2009); increased purchase likelihood, loyalty, and advocacy behavior (Du, Bhattacharya, and Sen 2007); and increased customer satisfaction, which leads to higher levels of firm financial performance (Luo and Bhattacharya 2006). Although there appear to be an overwhelming number of studies that have identified positive impacts of CSP, there are also a large number of studies that have found that these positive impacts are dependent on stakeholder perceptions of the reputation of the firm, the attributions that stakeholders make, and the perceived credibility of a firm’s claims and beliefs about its commitment to CSP (Barone, Miyazaki, and Taylor 2000; Ellen, Webb, and Mohr 2006; Sen, Bhattacharya, and Korschun 2006).

On the other hand, there is also a fairly extensive literature examining the firm level impacts of CSP on corporate financial performance (CFP). Indeed, more than 150 studies have been conducted over time to examine the relationship between CSP and CFP, finding mixed results on the main effect of CSP on CFP overall (Margolis and Walsh 2001, 2003), although a meta-analysis found that the overall impact appears to be positive (Orlitzky, Schmidt, and Rynes 2003). Recent work, however, has begun to move away from “the long fought battle for a universally positive or negative impact of CSP” (Luo and Bhattacharya 2009, p. 198) toward a more nuanced examination of how some firms may generate different market returns from CSP under different conditions.

Recent literature in the CSP domain has presented two questions that have been under-researched with respect to CSP by firms: 1) What are the processes and motivations that underlie the inclusion of CSP in firm strategic decisions? and 2) Why do some firms generate different market returns from their CSP? The present research consists of two studies that focus on developing an understanding of these two questions.

Despite growing evidence of the benefits to a firm of higher levels of CSP, many firms vary significantly in terms of their levels of CSP. This first study of this dissertation, presented in chapter two, investigates the impact of market strategy and factors associated with firm levels of CSP and whether CSP level impacts firm intangible value. Using Contingency Theory, I specifically propose that several organizational, market, customer, environmental and competitive characteristics of a firm predict a firm's level of CSP. A firm's CSR level is operationalized as the number of different sub-domains of CSR for which a firm has taken positive actions, and is captured using a unique dataset from Kinder, Lydenburg and Domini (KLD) which captures firm positive and negative actions across more than 35 different dimensions of socially responsible behavior. Findings based on a longitudinal, multi-industry sample of 447 firms over the period from 2000 to 2007 show that firms that have a corporate branding strategy, serve consumer markets, and have a greater degree of globalization have higher levels of CSR. Finally, I find that higher levels of CSR relative to a firm's industry result in higher levels of firm intangible value (Tobin's q).

The second essay of this dissertation, presented in chapter four, argues that one factor that has been largely ignored in the previous literature on the corporate social

performance (CSP)—corporate financial performance (CFP) link has been the moderating impact of a firm's history of CSP. I argue that failing to consider the past history of social performance by firms is likely to affect our understanding of the financial impacts of such performance. It is even possible that when they have a sufficiently negative history, firms may experience negative returns to increasing their positive performance—a phenomenon I term the *CSR Black Hole*. The second essay examines the following: 1) Does CSP history have an impact on the relationship between CSP and CFP? and 2) Is there a CSR Black Hole with respect to a firm's history of negative behaviors? That is, does past negative social performance of the firm negate potential benefits from current period changes in positive social performance? Using the Flow Signals framework proposed by Dekinder and Kohli (2008), I find that a stronger trajectory of negative CSP (either a history of growth in negative CSP or a trend toward increasing negative CSP) or a more inconsistent history of positive or negative CSP (reversals) decrease the returns to positive social performance. I also find evidence of a CSR Black Hole, but show that firms may be able to exit this by consistently managing their social performance over time.

Finally, chapter four presents implications of these two studies for research and practice, discusses potential limitations of these studies, and proposes future research directions.

CHAPTER TWO: DOES MARKET STRATEGY HAVE AN IMPACT ON FIRM CORPORATE SOCIAL PERFORMANCE?

Background

It appears that the benefits associated with corporate social responsibility (CSR) have not gone unnoticed by the top executives in firms. In a study by the Economist (2008) it was found that that nearly 75 percent of executives believe their firms need to integrate CSR issues into their strategic decisions. Given the high level of agreement among executives and the overwhelming evidence of the positive outcomes associated with CSR and CSP, one would expect to see a vast majority of firms focused on increasing their CSP. However another study finds that a majority of firms lack an overall plan for improving CSP and delivering results (Berns et al 2009). Given the significant percentage of firms that do not have a defined direction for their CSP efforts, it is critical to understand the factors associated with the choice of CSP level and how it relates to strategic dimensions of the firm. To my knowledge, no prior empirical research has attempted to explore this issue, leaving a gap in academic knowledge regarding CSP that this study seeks to fill. In particular, I argue that one important factor that has been ignored with respect to firm CSP decisions is the role of marketing in the development of a firm's overall CSP strategy.

Marketing has been recognized as the function within the firm that connects it with its customers (Moorman and Rust 1999) and other external stakeholders of the firm. Furthermore, the empirical evidence in the marketing literature suggests that the key

benefits of CSP to firms, as noted previously, seem to come in the form of growth in assets that are the principal responsibility of the marketing function in the firm.

Therefore, the marketing function, with its responsibility for managing marketing assets and its role in the identification of customer needs and the development and delivery of solutions that meet these needs, seems likely to play a critical role in the identification of opportunities related to CSP and the subsequent focus on CSP in a firm's overall market strategy. This point drives this study; specifically, the research questions that I will address in this study are: (1) What is the connection between firm market strategy and levels of firm CSP? and (2) What are the consequences of a firm's CSP level for firm intangible value?

I operationalize firm CSP level as a behavioral measure of the number of sub-domains in which a firm has undertaken positive CSR actions, captured using a unique dataset from Kinder, Lydenberg and Domini (KLD) which contains information on actual positive and negative actions by firms across a wide range of CSR dimensions (more details on the dataset will be provided later). This dataset has, as yet, been largely untapped in the marketing literature (see, for example, Kashmiri and Mahajan, 2010), and the conceptualization of CSP that I use allows for a significant improvement over previously used measures of CSP in three important ways, as will be discussed later.

The conceptual model depicted in Figure 2.1 (and explained in the next section) illustrates the central hypotheses related to my two research questions; that is, a firm's CSP level is related to several organizational, market, customer, environmental and

competitive characteristics, and that a firm's level of CSP is subsequently related to the intangible value of the firm.

This study is important to further academic understanding of the process behind including CSP in an organization's strategy for several reasons. First, this study is one of the first to empirically examine factors that are associated with levels of firm CSP. As Smith (2003) suggested, "the debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how?" This study answers a broad call by previous researchers to move beyond trying to demonstrate the value of CSP to a firm from a strictly economic sense, and to move toward descriptive research that aims to understand the motivations and processes that underlie the inclusion of CSP in firms' strategic decisions (Margolis and Walsh 2003). Second, to my knowledge there has not been any work that has examined the role of marketing in guiding decisions regarding how CSP will be included in a firm's operations. This study examines the connection between several of the organizational, market, customer, environmental and competitive characteristics of firms and their overall level of CSP, and as a result is the first study to examine the importance of marketing to firm CSP decisions.

To summarize the findings of this study, I find that companies that have a corporate branding strategy, serve consumer markets, and have a greater degree of globalization have higher levels of CSP, as predicted in my hypotheses. I also find that higher levels of firm CSP (relative to industry norms) are related to higher levels of firm intangible value (Tobin's Q). In the following section, I explain the conceptual model for this study (illustrated in Figure 2.1) and present hypotheses along with arguments in

support of both the factors associated with CSP level and the consequences of CSP for firm intangible value. To develop these hypotheses, I draw on prior literature in marketing and organization theory as well as previous empirical and theoretical CSR and CSP literature. I then test these hypotheses using secondary data. The third section presents the methodology used for this study and includes descriptions of the sample and the measures and sources of data for all the variables. The fourth section of the paper focuses on the analysis of the data and the results. Finally, I conclude with a discussion of the results.

Theory and Hypotheses

Strategic Choice of CSP Level by the Firm

To address my first research question, the conceptual model relies on Contingency Theory, which proposes that the appropriateness of different strategic choices that firms make is contingent upon factors related to the competitive settings of businesses (Donaldson 2002; Lawrence and Lorsch 1967; Thompson 1967; Zeithaml, Varadarajan and Zeithaml 1988). These factors include organizational characteristics, market and consumer characteristics, environment and competition (Day 1990). In essence, firms seek an optimal fit or match between their strategic choices and these contingency factors because some choices may suit some situations better than others. Therefore, to address the first research question, I identify four categories of characteristics as factors that may influence firms' levels of CSP: (a) organizational

characteristics of the firm, (b) the characteristics of the markets and customers that the company serves, (c) environmental factors that the firm faces, and (d) competitive factors that the firm faces. Figure 2.1 presents a framework that proposes the hypotheses related to several organizational, market and customer characteristics that are likely to be factors that influence a firm's level of CSP. Specifically, I focus on characteristics that are likely to result in: (a) increased awareness of and focus on the management of intangible assets by the firm and on the use of CSP as a brand building tool, (b) a higher probability of market response to CSP by firms, and/or (c) larger returns to scale from CSP. I recognize that there are many variables that could influence decisions regarding firm levels of CSP, but to address the specific research questions of interest I restrict this study to factors that have been previously established in the marketing literature as key factors related to firm strategic marketing decisions. I will now discuss these factors.

Organizational Characteristics

The first category of characteristics that will be examined is the characteristics of the organization itself. Two factors that I examine specifically are: the presence of a CMO in the (top management team) TMT and the branding strategy of the firm.

CSP is becoming increasingly important to firms' customers and, as such, firms that are sensitive to their customers' needs should be more focused on the CSP levels of their firms (Bemporad and Baranowski 2007). Previous research has demonstrated that primary roles of the CMO include monitoring the consumer landscape, developing customer insights, and directing brand strategy and marketing coordination (Hyde,

Landry and Tipping 2004; McGovern and Quelch 2004). Several authors have gone so far as to argue that the presence of a CMO in the TMT of a firm is strong evidence of the firm's structural commitment to marketing, an indicator of both the corporate status of marketing and corporate adoption of the marketing concept, and is a sign of a firm's recognition at the TMT level of the importance of the voice of the customer (Webster, Malter and Genesan 2003; McGovern et al. 2004; Nath and Mahajan 2008). It seems likely that firms that have a greater structural commitment to marketing will also be more sensitive to their customers' needs, and will, therefore, be likely to have a higher level of CSP in response to the increasing demands of customers. Furthermore, given the previously discussed impact of CSP on many of the marketing intangibles that are the primary responsibility of a CMO, I believe that the presence of a CMO will also increase the use of CSP as a brand and reputation management tool. Therefore, I hypothesize that firms with a CMO in the TMT will have higher levels of CSP.

H₁: Firms with a CMO in the TMT have higher levels of CSP.

Conceptually, branding strategies have been treated as a continuum, ranging from corporate branding, which uses the corporate brand name for all of the firm's products and services, to house-of-brands, where the corporate name is not used on any of the firm's products (Rao, Agarwal and Dahlhoff 2004). Corporate branding requires careful management to ensure that the image projected to customers remains consistent. One of the benefits to corporate branding is that the positive outcomes associated with strategic

marketing actions by the firm, including CSP, are likely to carry over to all of the company's products (Biehal and Sheinin 2007) and benefit the corporate brand as a whole (Rao, Agarwal and Dahlhoff 2004) which increases the scale of the returns that the firm experiences as a result of its CSP. For these reasons, I expect that firms using a corporate branding strategy will have higher levels of CSP.

H₂: Firms with a corporate branding strategy will have higher levels of CSP.

Market and Customer Characteristics

The second category that will be examined is the characteristics of the markets and customers served by a firm. Two factors that I examine specifically are: serving a consumer (vs. industrial or business-to-business (B2B)) market and having a greater degree of globalization.

The first factor, serving a consumer market, exposes a firm to a broader diversity of customers, which will in turn result in a greater range of customer needs and demands that must be met. In such a scenario, past research has shown that markets will likely reward innovation and differentiation, which increases the need to quickly and correctly identify marketing opportunities (Hambrick 1981; Hitt and Ireland 1985, 1986). Perhaps more importantly, a great deal of evidence suggests that consumers are placing ever greater importance on CSP, with some 90% of customers reporting that the environmental and social actions of firms influences their choice of with whom to do business (Bemporad and Baranowski 2007). On the other hand, past research has argued

that B2B customers make decisions by committee, which is likely to decrease the role of individual beliefs and perceptions (Lilien 1987). Furthermore, B2B customers are likely to have an increased focus on objective criteria in their decision making, such as production schedules and costs, to satisfy a total organizational need rather than individual wants (Lilien 1987)¹. Given the demands and concerns of B2B customers, it is likely that these customers will demand cost cutting or quality improvement measures, which may include some socially responsible elements, but are unlikely to specifically demand CSP from their suppliers. This suggests that individual consumers are more likely to have a more diverse set of demands and are more likely to respond to CSP than are B2B customers. Therefore, I hypothesize that firms that serve consumer (vs. B2B) markets will have higher levels of CSP in response to customer demands.

H₃: Firms that serve a consumer (vs. B2B) markets will have higher levels of CSP.

The second factor in this category is the degree to which firms are globalized (i.e., depend on markets outside of the United States for a higher proportion of their sales). As in the case of serving consumer markets, the degree of a firm's globalization is likely to create a diverse set of needs that a firm must meet to be successful in these markets. As discussed previously, such firms are likely to be rewarded for innovation, differentiation,

¹ I thank an anonymous reviewer for pointing out that B2B firms may actually have a higher demand for CSP as more firms are currently pushing CSP throughout their supply chains, and as a result firms may be including CSP as part of the formal decision processes noted above.

and quickly and correctly identifying market opportunities. Previous research has also found that for U.S. firms operating overseas there is a general expectation among foreign consumers of social responsibility by firms, rather than the scattered demand for social responsibility that they typically experience in the United States market (Holt, Quelch and Taylor 2004). Additional evidence suggests that consumer concerns are viewed as a critical force in driving the CSP of firms that operate outside the United States (Berns et al 2009; Cappelli, et al. 2010). These findings suggest that markets outside of the United States are more likely to respond to firm CSP, and therefore, I hypothesize that a higher degree of globalization will lead to higher levels of CSP.

H₄: Firms that have a higher degree of globalization will have higher levels of CSP.

Consequences of CSP Level

The second important research question that I address in this study is whether or not CSP level has an impact on firm intangible value. Much of the marketing literature on CSP that I have noted previously examined the impact of CSP and CSR reputation on non-financial firm outcomes, with the exception of Luo and Bhattacharya (2006), which demonstrated a link between CSR reputation and customer satisfaction, which in turn was found to drive firm financial performance². For the purpose of the present research,

² The work of Luo and Bhattacharya (2006) uses Tobin's q as a measure of financial performance, which is the same measure that I use as a measure of firm intangible value. When discussing their work I will use their terminology, i.e. firm performance, to describe their results related to Tobin's q. In the context of my

however, I am interested in whether or not the level of CSP has an impact on firm intangible value.

In several surveys of corporate leaders, improved brand equity has been identified as the primary benefit of a focus on CSP (Economist 2008; Berns et al. 2009). Previous academic literature also seems to support this contention, as much of the previous literature suggests that CSP may play an important role in brand marketing through the positive impact of CSP on the key determinants of brand equity: awareness, association, attitudes, attachment, and actions (Keller 1993; Hoeffler and Keller 2002). Past literature has argued that firm intangible value is a valid measure of the strength of a firm's brands, the brand equity of a firm, and the value of a firm's marketing strategies (Day and Fahey 1988; Simon and Sullivan 1993; Rao, Agarwal and Dahlhoff 2004). Thus, if CSP does indeed affect a firm's brand equity and the value of a firm's brands, then I would expect that higher levels of CSP will have a positive impact on the intangible value of a firm.

H5: Firms with higher levels of CSP will have a higher intangible value (Tobin's q).

Methodology

Sample

work, however, I use the term intangible value when I discuss Tobin's q as a measure. Both interpretations of Tobin's q have been used in the literature.

KLD Research and Analytics, Inc. was founded in 1988 with the key mission of, “providing global research and index products to facilitate the integration of environmental, social and governance factors into the investment process (www.kld.com).” To this end, KLD has developed a database, KLD Stats, which measures social and environmental performance of 4,000 firms along the dimensions noted in the Appendix. According to the KLD website, some 400 money managers and institutional investors use either the KLD Stats database or the Domini 400 Social Investment Index (derived from KLD Stats) in their investment decision making process, including 31 of the top 50 institutional money managers worldwide. This database has been used rather extensively in the management literature and has “become the standard for quantitative measurement of corporate social action” (Mattingly and Berman 2006), but has seen limited use in the marketing literature (with the previously noted exception of Kashmiri and Mahajan, 2010).

As mentioned previously, the use of this dataset provides several benefits over measures that have been used previously in the marketing literature. First, a number of previous studies have used measures of social responsibility or social performance that focus on single domains of CSR, for example, compliance with particular environmental laws, operating decisions in South Africa, and philanthropic contributions, along with many others (Margolis and Walsh 2001). The dependent variable in the present study captures seven dimensions of social responsibility each broken into several sub-domains, and therefore allows me to better capture a firm’s overall CSP across a broad range of domains, which is critical both theoretically and practically in developing an

understanding of CSP level. Second, a number of other studies have used broad company level measures of CSR reputation which capture perceptions of firm behavior rather than the actual behavior of firms, such as the Fortune Most Admired Companies ratings. These measures may suffer from several well documented perceptual biases, including a “halo effect” of firm performance influencing perceptions of a firm’s social responsibility (Waddock and Graves 1997). The KLD Stats database is based on the actual behavior of the firms, and therefore is not subject to the same biases that these perceptual measures may suffer from. Finally, related to both of the previous points, the measures typically used in CSP studies come from a single source of data, which could result in either a view of CSP that is too narrow, or a view of CSP that reflects the biases of the original data collecting agent. While the KLD measures are compiled by a single company, use of this database serves to reduce these potentially negative effects through the use of a broad range of independent sources, which include direct communication with company officers, communication with a global network of CSR research firms, monitoring of more than 14,000 global news sources, corporate proxy statements, quarterly and annual reports, and government and NGO information.

The KLD Stats database includes firm social performance information on seven dimensions, including: community relations, employee relations, product issues, corporate governance, diversity, human rights issues, and environmental performance. Each of these dimensions consists of a series of different sub-domains (for a breakdown of the categories, see the Appendix), which are further broken down into both positive and negative actions by firms that are represented by binary scores of either zero (for

actions the firm has not taken) or one (for actions which the firm has taken) for each year in the database. Table 2.1 shows examples of the KLD Stats database for the two firms mentioned in the initial example, Lexmark and Adobe, for the year 2007. The first column shows the separate dimensions of socially responsible behavior specifically covered by KLD Stats. The numbers in the following columns represent the number of sub-domains under each dimension for which a firm has taken a particular action. So, for example, with respect to the diversity dimension, one can readily see that Lexmark has four sub-domains for which it has undertaken positive actions (including minority issues, employment of the disabled, and gay and lesbian policies) and zero sub-domains for which it has taken negative actions. At the bottom of each company's dimension information, the sum of the total positive or negative sub-domains in which a firm has taken an action is reported. Here one can see, for example, that Lexmark has six total sub-domains in which it has taken positive actions and one sub-domain in which it has taken a negative action. As will be discussed later in the Analysis and Results sections, the method I have chosen examines levels of the firm's social performance relative to that of others in a firm's industry (by including industry dummies in the estimation of my models). The final number in the tables represents the ultimate score for each firm relative to the average for others in its industry, and I see that Lexmark has a +0.93 score for positive actions and a -2.43 score for negative actions relative to other firms in SIC industry 35. Overall, this indicates that, relative to all other firms in the same SIC, Lexmark has taken positive actions in one more sub-domain and negative actions in two fewer sub-domains than has the average firm. The information in Table 2.1 also

demonstrates the separation between positive and negative ratings in the KLD Stats data. It should also be noted that negative ratings do not preclude receiving positive ratings, as the positive and negative dimensions are scored separately, which is consistent with previous research which demonstrated that the KLD measures of positive and negative actions are empirically and conceptually distinct (Mattingly and Berman 2006).

For the purpose of the present research, I focus on public firms in the United States and draw the original sample from all S&P 500 firms in the KLD Stats database, as these companies have been tracked consistently over the entire lifespan of the database.

The KLD Stats database was augmented with data from S&P's COMPUSTAT database, which includes firm financial data gathered from quarterly and annual reports, and was used to capture several of the measures of interest for this study, in particular the measure of degree of firm globalization, several control variables, and the measures to be used for the estimation of the effects of CSP level on firm intangible value.

The final sources of data used for this study include firm websites, annual reports and proxy statements, from which I capture data with respect to several of my hypotheses through content analysis. Specifically, information on the presence of a CMO in the TMT of a firm, branding strategy, and types of markets served were captured through content analysis of these data sources. The actual process of collecting each of these variables will be discussed in the next section.

The sample used in this analysis includes 447 firms, observed over the eight year period from 2000 to 2007, inclusive (yielding 3,198 firm-year observations), for which I was able to obtain data on the independent variables of interest, either through S&P's

COMPUSTAT or through my own secondary data collection efforts. The sample represents a cross section of industries across 54 two-digit SIC codes.

Data Sources and Measures

Table 2.2 gives a brief summary of the data sources and measures to be used to conduct the proposed research, which will be described in greater detail below.

Model of Firm CSP Level

Dependent Variable: CSP Level

As discussed previously, the dependent variable for this research is firm CSP level, and is based on the categorization used in the KLD Stats database. The KLD Stats database is structured such that positive actions are those that exceed minimum legal or social requirements, while negative actions are those for which a firm fails to meet minimum legal or social requirements in a particular dimension. Consistent with the previous definition of CSP, I have chosen to use the number of sub-domains in which a firm has taken a positive action in a given year as a measure of the firm's CSP level. Practically speaking, the focus of this work is on what drives firms to go above and beyond the baseline legal or social requirements placed on them by external stakeholders³. Given the structure of the data as a series of binary variables indicating the

³ This focus is not intended to negate the importance of the management of negative CSP by the firm; in fact, there is the possibility that firms' negative CSP is likely to influence positive CSP by firms (Kotchen and Moon 2007) and firm intangible value. Therefore, I include the number of sub-domains in which a firm

presence or absence of an action in a particular sub-domain, my dependent variable represents the sum of these binary variables. Across years between 77 and 89 percent of firms in the sample had undertaken at least one positive CSP action in each year of the sample. Tables 2.3 and 2.4 present descriptive statistics and correlations for all measures. The dependent variable is operationalized as the number of sub-domains of positive CSP actions for each firm.

Predictors: Organizational Characteristics

As mentioned earlier, the voice of the customer is represented by the presence of a CMO in the company's TMT. This factor is conceptualized in the same way as Nath and Mahajan (2008), and consists of a binary variable for each year, which equals one if a firm has a CMO in the top management team in that year, and zero otherwise. Specifically, an executive in the TMT with marketing in his/her title constitutes CMO presence; a TMT without such an executive represents CMO absence. In addition to CMO, the actual titles included Vice President (VP) of Marketing, Senior VP Marketing or Executive VP Marketing (Nath and Mahajan 2008). CMO presence coded from the proxy statements was cross checked against the list of officers from annual reports where possible. The summary statistics in Table 2.3 show that there was a CMO present in 17% of firm year observations across all periods. Additional analysis showed that nearly 35% of the firms in the sample had a CMO for at least one year of the sample, which is

has negative CSP as a control variable in both the models of firm CSP level and firm intangible value, as I address later. I chose to keep the measures of positive and negative CSP separate, as past research has found that the two measures are empirically and conceptually distinct constructs and, "should not be combined in future research" (Mattingly and Berman 2006).

relatively consistent with the 42% reported in previous literature (Nath and Mahajan 2008).

The corporate vs. house-of-brands branding strategy variable was based on the definitions presented by Rao, Agarwal and Dahlhoff (2004). I operationalize branding strategy as a binary variable that equals one if a firm uses a corporate branding strategy, and zero otherwise. The branding strategy of a firm tends to be stable over time, but I checked across the years in the sample to confirm that it had remained the same for all firms. As reported in Table 2.3, 50% of the sample had a corporate branding strategy in place, while 50% had either a mixed or house-of-brands strategy.

Predictors: Market and Customer Characteristics

The consumer vs. B2B market served variable was coded from firm websites and annual reports. Firms' customer profiles were coded as being either pure B2B, pure B2C, or mixed. I coded this as a binary variable which equals one if the firm serves consumer markets (either B2C or mixed) and zero if the firm serves a pure B2B market. The customer profile of a firm tends to be stable over time, but I checked across years to confirm that it had remained constant for all firms. I find that 52% of the firms in the sample serve consumer markets and 48% serving pure B2B markets (see Table 2.3).

Degree of globalization is operationalized as international sales as a percentage of total sales (Sullivan 1994). Overall, the sample shows an average of 28% of firm sales being derived from outside the United States, with a range from 0% to 93% across the firms (see Table 2.3)

Controls: Organizational Characteristics

Given evidence from previous work, I examine the effect of firm size on CSR level. Past research has developed a set of conceptual arguments for the relationship between firm size and participation in CSR (Udayasankar 2007). The basic premise is that the relationship between firm size and CSR participation follows a U-shaped curve, with small and large firms having higher likelihood of participating in CSR and medium firms having a lower likelihood of participating in CSR. Therefore, I will include firm size and firm size squared as control variables in the present analysis to account for this hypothesized nonlinear relationship. I tested both the natural log of sales and the natural log of the total number of employees and find that the choice of either control for firm size does not have a significant impact on parameter estimates, and therefore I choose to report models using only the log of total employees as a control for firm size.

The second important control is the firm's level of negative CSP. In a working paper, Kotchen and Moon (2007) argue that firms that have more negative CSP are likely to try to offset this negative CSP by having more positive CSP. Thus, I add a control for a firm's level of negative actions, which is conceptualized as the total number of sub-domains of negative CSP actions that a firm has committed in a given year and is measured using the KLD Stats database.

The third organizational control variable is past financial performance. There is some evidence in the literature that firm slack resources may be a strong predictor of CSP, in the sense that firms with more free resources will be able to spend money to

increase their CSP (Surroca, Triba and Waddock 2010). Thus, I control for past levels of return on assets, measured as profits as a proportion of total assets, as a measure of slack resources. I also examined measures such as return on sales (ROS) and log of profits and found no significant difference in terms of their effects on my estimates.

Controls: Competitive Characteristics

The first control for the competitive environment is whether or not a firm is a market leader in its particular industry for a given year. Typically market leaders are larger firms, and may receive a higher level of attention from the general public, which in turn may push them to behave in a more socially responsible manner (Stanwick and Stanwick 1998). I operationalize market leadership as a binary variable which equals one if a firm has the highest level of sales in its industry (at the 2-digit SIC level) in a given year, and zero otherwise.

It is both theoretically and empirically critical to control for unobservable effects of a firm's industry as it is likely that there are different levels of competitive and normative pressure that result from the industry in which a firm operates that may drive a firm's CSP level. Such a control also allows me to control for potentially spurious relationships between independent variables (for example type of customer market served) and the level of CSP by a firm which may both be highly related to the industry in which a firm operates. As reported in Table 2.5, there is a great deal of variation across industries in terms of the levels of CSP, and it is critical to try to control for unobservable causes of variation across industries. Therefore, I add a series of fixed

effect dummies for the industry in which a firm operates (by 2-digit SIC) as a set of controls. As a result, all of the variables of interest enter the analysis as scores relative to the industry mean on each variable.

Controls: Environmental Characteristics

The first environmental characteristic is market turbulence. Market turbulence has been identified in many studies as an important determinant and moderator of the effectiveness of different marketing strategies by firms (Slater and Narver 1994 ; Moorman 1995). I tested both the coefficient of variation of sales and the coefficient of variation in ROA for a firm's industry as measures of market turbulence (Haleblian and Finkelstein 1993), and find little difference between the two measures in terms of explanatory power. Given other variables in the model, I chose to use the coefficient of variation in sales in a firm's industry as a measure of market turbulence.

Similar to the arguments above for the inclusion of industry fixed effects, failure to control for the year of an observation may result in a failure to capture generally increasing trends toward CSP by firms or other time dependent, unobservable characteristics of the environment, thus introducing potential bias in the estimated parameters. As is clearly demonstrated in Figure 2.2, there is an increase over time in the average levels of CSP across the years of the sample, particularly after 2005. I examined possible explanations for this slight jump after 2005, and find that 62% of firms showed an increasing level of CSP across the sample, providing evidence that there was a generally increasing level of CSP over time that was not driven by the actions of a few

outlier firms⁴. Given this generally increasing trend, I include a series of year fixed effects to control for unobservable environmental factors over time that may influence the observed levels of CSP. This refinement further adjusts the variables of interest, so the ultimate result is that each of the factors of interest is treated in the final regression as scores relative to a firm's industry for each year in the sample.

Model of Firm Intangible Value

Dependent Variable: Firm Intangible Value

Rao, Agarwal and Dahlhoff (2004), among others, argue that Tobin's q measures the intangible value of a firm, which is often attributed to the strength of the company's brand(s). Several marketing studies have used Tobin's q to try to understand the value of marketing and company activities. Specifically, Tobin's q has been used as a measure of brand equity (Simon and Sullivan 1993), as a measure of the value of marketing strategies (Day and Fahey 1988), to understand the effects of information technology on firm performance (Bharadwaj, Bharadwaj and Konsynski 1999), and to understand the effects on the intangible firm value of the three primary firm branding strategies - Corporate, Mixed, and House-of-Brands (Rao, Agarwal and Dahlhoff 2004). For the purpose of this paper, I use the approximation for Tobin's q proposed by Chung and Pruitt (1995). All data required for the calculation of Tobin's q were drawn from COMPUSTAT.

⁴ Further analysis shows that removing outliers does not significantly change the averages demonstrated in Figure 2.2.

Controls

I include several control variables in the model of firm intangible value. First, I add the number of sub-domains in which a firm has negative CSP, as in the CSP level model. A similar, but opposite, argument to the one made for the impact of positive CSP on firm intangible value could be made for negative CSP, therefore I control for this factor in my model of the impact of positive CSP level on intangible value. The second control variable that I use in the model of firm intangible value is the size of the firm, which has been demonstrated to have a relationship with the intangible value of a firm, as larger firms typically have a larger tangible asset base which can serve to reduce the ratio of book to assets, which is the fundamental basis of the Tobin's q measure. Finally, I control for the previous period value of Tobin's q, which has been demonstrated to be the strongest predictor of Tobin's q in the current period. The inclusion of this control variable allows me to capture the impacts of anything that had an impact on Tobin's q prior to the present period, thus helping to control for both observable and unobservable factors that influence Tobin's q. Finally, for similar reasons to those discussed in the CSP level model discussion, I control for industry and year fixed effects in estimating the impact of CSP level on firm intangible value.

Analysis and Results

As shown in Table 2.4, only one correlation between variables exceeds 0.4⁵, so there is little evidence of significant multicollinearity issues among the explanatory variables. I also examined the VIFs associated with the independent variables, none of which exceed 2.0, providing further evidence of a minimal impact of multicollinearity (Kennedy 2008).

Based on the structure of the conceptual model and the variables that I have chosen to include, the estimation consists of two separate equations to be estimated. The equations I estimate are as follows:

$$\begin{aligned} \text{CSP}_{it} = & b_1 * \text{CMO}_{it} + b_2 * \text{CorpBrnd}_i + b_3 * \text{Consumer}_i + b_4 * \text{IntlIntens}_{it} \\ & + b_5 * \text{Size}_{it} + b_6 * \text{Size}_{it}^2 + b_7 * \text{NegCSP}_{it} + b_8 * \text{ROA}_{it-1} \\ & + b_9 * \text{MktLead}_{it} + b_{10} * \text{MktTurb}_{jt} + \mu_j + \xi_t + \varepsilon_{it} \end{aligned} \quad (1)$$

$$\text{Q}_{it} = B_1 * \text{CSP}_{it} + B_2 * \text{NegCSP}_{it} + B_3 * \text{Size}_{it} + B_4 * \text{Q}_{it-1} + \mu_j + \xi_t + \varepsilon_{it} \quad (2)$$

where:

CSP = level of CSP (# of sub-domains of positive CSP)

CMO = presence of CMO

CorpBrnd = presence of corporate branding strategy

Consumer = consumer markets served

⁵ The only correlation that exceeds 0.4 is between current and future levels of Tobin's q, which is acceptable given that I use past Tobin's q as a control for all factors that may have influenced firm intangible value prior to the current period.

IntlIntens = international intensity

Size = firm size

NegCSP = # sub-domains of negative CSP actions

ROA = return on assets

MktLead = market leadership for 2-digit SIC

MktTurb = coefficient of variation in sales for 2-digit SIC

μ_j and ξ_t = industry and year fixed effects, respectively

ε_{it} = firm-year specific error term

Q = Tobin's q

In addition to including industry and year fixed effects, due to the panel structure of the data, I expect that there will be within-firm dependence of yearly observations. Ideally, including firm fixed effects would be the strongest correction for this within-firm dependence, however the inclusion of firm fixed effects would not allow for the estimation of time-invariant firm specific (or relatively time invariant) explanatory variables, which is the case for several of the explanatory variables which are included in the conceptual model. Therefore, I introduce a robust or Huber-White estimator clustered at the firm level to correct for the downward bias on the standard errors that would result from the failure to correct for within-firm dependence of observations (Wooldridge 2002).

Estimation: Model of CSP Level

One possible concern with estimating the two preceding equations separately is that in addition to CSP being a driver of firm intangible value, it is also possible that firm intangible value can drive CSP (Surroca, Tribo and Waddock 2010)⁶. To try to correct for the potential endogeneity that results from this feedback effect (denoted by the dotted arrow in Figure 2.1), I estimate equations (1) and (2) simultaneously using a two-stage least squares (2SLS) estimation approach via the IVREG2 procedure in Stata 10 (Baum, Schaffer, and Stillman 2002). In this estimation procedure, the estimated value of CSP level from equation (1) is entered in equation (2) as an instrument for the observed level of CSP as a correction for the possible endogeneity mentioned above.

Overall, the results of the simultaneous estimation of equations (1) and (2) provide statistical support for all but one of my hypotheses. The results of the models of CSP level and the impact of CSP level on firm intangible value are included in Table 2.6. Specifically, with respect to the model of CSP level, I find that the presence of a corporate branding strategy, serving customer markets, and the degree of globalization of a firm are all related to a significantly higher level of CSP.

As Table 2.6 shows, I find directional (but not statistically significant) effects of CMO presence on firm CSP level ($p < .20$), a result that I address in the Discussion and Implications section. With respect to the hypothesized effects of corporate branding on CSP level, I find strong support for H_2 ($p < .05$), that firms with a corporate branding strategy have higher levels of CSP. I find support for H_3 , which predicted that firms serving consumer markets have higher levels of CSP, is strongly supported ($p < .01$). I

⁶ I would like to thank an anonymous reviewer for this comment.

also find strong statistical support for H₄, which predicted that firms with a greater degree of globalization would have higher levels of CSP ($p < .05$). Finally, with respect to the control variables, I find strong statistical evidence that larger firms ($p < .001$), firms with higher levels of negative CSP ($p < .001$), and firms with higher levels of intangible value ($p < .05$) have higher levels of CSP. I now turn to a more detailed discussion of these results, and examples of how these results relate to observed levels of firm CSP level in the context of actual corporations.

I found evidence that firms with a corporate branding strategy have higher levels of CSP. This follows arguments that companies with a corporate branding strategy are likely to see larger gains in terms of overall brand image across their entire product portfolio from their positive CSP, and, thus, are likely to reap larger rewards from their CSP than firms without a corporate branding strategy. Here one can compare Procter and Gamble with Hewlett Packard. Both firms have CMO's, have similar degrees of globalization and have a strong focus on consumer markets, however Hewlett Packard uses a corporate branding strategy while Procter and Gamble utilizes a house-of-brands branding strategy. Again, as predicted, I find that Hewlett Packard has a score of 17 (+10.17 relative to own industry) and Procter and Gamble has a score of 10 (+4.53 relative to own industry).

The rationale of market and customer characteristics being related to the level of CSP is evidenced by the association between serving consumer markets (vs. B2B) and the degree of globalization of the firm (based on percentage of sales from abroad). I find that companies that serve consumer markets have higher CSP levels than firms that serve

B2B markets. As mentioned previously, consumers are more likely to be concerned about the social and environmental performance of the firms from which they purchase goods and services, and therefore, firms that serve these markets have higher levels of CSP. For example, one can compare Microsoft with Archer Daniels Midland (industrial food processing), which both have similar levels of sales and degree of globalization, neither has a CMO, both have a corporate branding strategy, however Microsoft has a much greater focus on consumer markets than does Archer Daniels Midland. When I compare levels of CSP between these two firms I find that as predicted Microsoft has a score of 11 (+7.06 relative to own industry) and Archer Daniels Midland has a score of 2 (-2.60 relative to own industry).

With respect to globalization, I find that a higher degree of globalization (as measured by the percentage of sales from outside the United States) has a strong positive effect on the level of a firm's CSP. Given the previous evidence that consumers abroad are likely to have a general expectation of social responsibility by firms and as such firms that serve these markets are likely to respond with higher levels of CSP. For example, IBM and Verizon are similarly sized, neither have a CMO, and both have a corporate branding strategy, however 63% of IBM's sales are derived from outside the United States, while only about 4% of Verizon sales are from outside the domestic market. As predicted, I find that IBM has a score of 22 (+18.06 relative to own industry) while Verizon has a score of 6 (+4.58 relative to own industry).

Under these conditions, it appears that marketing, with its primary responsibilities for the identification of customer needs, the delivery of solutions that meet these needs

and management of the intangible brand and reputational assets of the firm, is likely to play a critical role in the identification of opportunities related to CSP. As such, these findings indicate that CSP is being used as an important component of the strategic market plan by firms that are likely to be rewarded for their ability to sense the market and react to the demands of the customers and markets that they serve.

In sum my analysis finds that organizational, market and customer characteristics influence firm CSP levels. This examination of factors that are related to CSP levels provides evidence that can be used as a starting point for future research to develop a deeper understanding of the factors that are related to firm CSP levels and that may be related to the strategic use of CSP by firms.

Estimation and Results: Model of Firm Intangible Value

The results of the performance regression results obtained via the 2SLS estimation described previously are reported in Table 2.6. I find that higher levels of CSP (relative to a firm's industry average) are related to higher levels of firm intangible value (Tobin's q) ($p < .05$). Thus, I find statistical support for hypothesis 5, that higher levels of CSP relative to a firm's industry are associated with higher intangible value of the firm. I will discuss the implication of these findings and possible explanations for the observed results in the Discussion and Implications section.

Discussion

The purpose of this study was to address the following questions: (1) What is the connection between the market strategy of a firm and its level of CSP? and (2) What are the consequences of CSP level for firm intangible value? I was able to identify several organizational, market and customer characteristics that influence the level of firm CSP. Overall, I find that companies that have a corporate branding strategy, serve consumer markets, and/or have a high degree of globalization have higher levels of CSP, as predicted in my hypotheses. Furthermore, I find that firms with greater CSP levels relative to their industry norm have higher intangible value, as measured by Tobin's q . Overall I find statistical support for all of my hypothesized effects, except for the effect of CMO presence on CSP level for which I find directional support of a positive relationship. This finding suggests that there may be a relationship, but that this relationship may be more nuanced than I have proposed. It is possible that the presence of a CMO does in fact increase a company's receptiveness to the voice the customer and improve the firm's ability to identify opportunities with respect to CSP, but that the ability to implement CSP in particular dimensions is outside the reach of the CMO and market strategy of the firm. For example, when one looks at the dimensions of CSR in the Appendix it is clear that the reach of a CMO is unlikely to include control over many of sub-domains included under the diversity, employment, or humanitarian dimensions, and as such there may be a limited ability of the CMO to drive the overall CSP level of the firm. Clearly, a deeper understanding of how firms implement CSP and how CSP develops across these dimensions would be desirable.

In essence, my findings demonstrate that firms facing conditions under which the market is likely to demand social responsibility and that are likely to see broad gains across their product portfolio as a result of their CSP are the most likely to have given priority to CSP in their market strategy. This suggests that among the firms with the highest levels of CSP, the choice of level of CSP is strongly driven by the organizational, market, customer, environmental, and competitive characteristics and strategies of the firm. Furthermore, I find that those firms with higher levels of CSP relative to their industry norm also have higher levels of intangible value, providing evidence that one possible result of a higher level of CSP is increased intangible value, which has been recognized as a measure of the brand equity of the firm. This makes sense when one examines much of the theoretical literature regarding CSR and CSP. Specifically, much of the theoretical argument with respect to CSR and CSP at this time is driven by Stakeholder Theory, which suggests that firm development of effective CSR initiatives must take into account the voices of the many internal and, perhaps more importantly, external stakeholders of the firm (Donaldson and Preston 1995; Mitchell, Agle and Wood 1997). The marketing function in many firms is the function that is responsible for the detection of the needs of external stakeholders (customers in particular), the development of solutions and products that meet these needs, and the communication and delivery of these solutions and products to the marketplace. Therefore, my results seem to imply that the marketing function in the firm is at least partially responsible for the levels of CSP that can be seen among firms and, when used properly, CSP may be a driver of increased brand equity for the firm.

CHAPTER THREE: DOES FIRM CORPORATE SOCIAL PERFORMANCE HISTORY HAVE AN IMPACT ON THE SOCIAL PERFORMANCE-FINANCIAL PERFORMANCE LINK?

Background

One of the critical debates regarding a firm's CSP is whether CSP, if approached correctly, can result in improved performance for the firm. It should not be surprising, then, that there has been a great deal of work trying to address the effects of CSP on corporate financial performance (CFP). Indeed, more than 150 studies have been conducted over time to examine the relationship between CSP and CFP, finding mixed results on the main effect of CSP on CFP overall (Margolis and Walsh 2001, 2003), although a meta-analysis found that the overall impact appears to be positive (Orlitzky, Schmidt, and Rynes 2003). Recent work, however, has begun to move away from "the long fought battle for a universally positive or negative impact of CSP" (Luo and Bhattacharya 2009, p. 198) toward a more nuanced examination of how some firms may generate different market returns from CSP under different conditions.

Research on CSP in the marketing and management literature has largely been focused on the impacts of CSP or of a firm's socially responsible actions on consumer decision making. Some key findings in the marketing and management literature with respect to the impact of CSP include higher levels of customer identification with the company (Sen and Bhattacharya 2001); improved company evaluations that can lead to improved product attitudes and evaluations (Berens, van Riel, and van Bruggen 2005;

Brown and Dacin 1997); increased differentiation from competition (Meyer 1999); the development of a reservoir of “goodwill” (Dawar and Pillutla 2000) or “moral capital” (Godfrey 2005), which generates an “insurance-like” benefit (Godfrey, Merrill, and Hansen 2009); increased purchase likelihood, loyalty, and advocacy behavior (Du, Bhattacharya, and Sen 2007); and increased customer satisfaction, which leads to higher levels of firm financial performance (Luo and Bhattacharya 2006). Although there appear to be an overwhelming number of studies that have identified positive impacts of CSP, there are also a large number of studies that have found that these positive impacts are dependent on stakeholder perceptions of the reputation of the firm, the attributions that stakeholders make, and the perceived credibility of a firm’s claims and beliefs about its commitment to CSP (Barone, Miyazaki, and Taylor 2000; Ellen, Webb, and Mohr 2006; Sen, Bhattacharya, and Korschun 2006). In general, the belief at the consumer behavior level is that consistent behavior over time results in attributions by stakeholders and will allow a firm to capture the many stakeholder-based benefits that have been attributed to CSP (Du, Bhattacharya, and Sen 2007).

Despite the evidence that behavior over time is important in developing attributions and expectations, most studies at the firm level of the impact of CSP on CFP have ignored the impact of a firm’s history of CSP behavior, with the exception of Godfrey, Merrill and Hansen (2009) which used prior period levels of positive and negative CSR levels to examine the moderating impact of a firm’s past on abnormal returns from negative announcements. In fact, among the many studies of the CSP–CFP relationship, most examine either measures of a firm’s CSP at a particular point in time or

changes in a firm's behavior, with little concern or discussion about trends in a firm's behavior over time (Margolis and Walsh 2003). To better understand the possible issues with such an approach, I turn to the example in Figure 3.1. This figure displays the history of social performance of two firms in the computer products space—Lexmark and Adobe—according to the KLD Stats database (www.kld.com). As I will discuss in greater detail in the data section, KLD Stats scores firms across 36 sub-domains of positive and negative CSP, categorized into seven categories. Positive sub-domains are those for which the firm exceeds established legal and/or social standards, and negative sub-domains are those for which a firm's actions are below legal and/or social standards. If I take the methodology used in much of the previous literature, I would look at either the level of each firm's social performance in 2007 or the change in their behavior between 2006 and 2007, and would try to draw conclusions about the impact that such behavior has on the financial performance of each firm. In this case, the application of the first method reveals that both firms have similar levels of positive and negative performance (6 and 7 sub-domains of positive CSP, respectively, and one sub-domain of negative CSP each), and the application of the second method would reveal that these two firms are identical in their change in performance from 2006 to 2007 (increasing positive performance in one sub-domain and no change in negative performance). However, looking at the diagrams in Figure 3.1, and on the basis of the aforementioned arguments, one can see that simply examining CSP levels or recent changes in CSP clearly misses a great deal of information about the history of the firm's CSP performance and the overall trends in such behavior that are likely to be critical in

understanding how CSP is related to CFP. Specifically, one can see that Adobe has been quite consistent in its actions over time and has been steadily increasing its positive CSP, whereas Lexmark has been much less consistent in both its positive and negative CSP. In these two cases, it is quite possible that the attributions by stakeholders and their beliefs about the motivation of the firms' CSP are likely to differ significantly for the two firms and to subsequently result in quite different stakeholder responses.

This motivates my key research questions of interest. Specifically, the purpose of the present study is to address two research questions of interest: 1) Does CSP history have an impact on the relationship between CSP and CFP? and 2) Is there a CSR Black Hole with respect to a firm's history of negative performance? That is, does past negative social performance of the firm negate potential benefits from its current period changes in positive social performance?

This study contributes to our knowledge of the relationship between CSP and CFP in three important ways. First, this study is the first to examine how a firm's path of CSP over time impacts the relationship between a firm's current period changes in CSP and the stock valuation or CFP of the firm. Starting from the perspective of Srivastava, Shervani, and Fahey (1998) and the efficient markets theory of asset prices (Fama 1970), I develop a theoretical argument of how changes in CSP are expected to impact the cash flows and subsequent stock valuation of the firm. Then, using expectancy disconfirmation theory (Oliver 1980) along with previous empirical and theoretical literature in marketing, management and accounting, we develop and test hypotheses with respect to how a firm's historical path of CSP is expected to impact the relationship

between changes in a firm's CSP and CFP. Second, I use the novel flow signals approach of DeKinder and Kohli (2008) to model a firm's history of CSP and to demonstrate how a firm's trajectory and consistency in their path of CSP has a significant impact on the relationship between CSP and CFP. Finally, I use a unique dataset to develop a direct measure of CSP and can examine changes over time in a firm's CSP. As a result, this study is the first to be able to examine the impacts of a firm's CSP path over time on the relationship between a firm's current CSP efforts and the resulting CFP effects.

To foreshadow my results, I find that a firm's history of CFP does indeed have an impact on the CSP–CFP relationship. More specifically, I find that, overall, firms that increase their positive CSP experience positive gains in their intangible value, but that those with a stronger trajectory of negative CSP (either a history of growth in negative CSP or a trend toward increasing negative CSP) or a more inconsistent history of positive or negative CSP (reversals) actually experience smaller gains from their current improvements in positive CSP. Furthermore, I find that current period changes in negative CSP do not appear to have a direct impact on the firm's intangible value, but that the history of negative CSP appears to be the lens through which a firm's current positive CSP is judged.

In the next section, I explain the conceptual model for this research (illustrated in Figure 2.2) and present hypotheses along with arguments in support of the impact of CSP history on the CSP–CFP relationship. I then test my hypotheses using secondary data. The third section presents the methodology used for the present study, and the fourth

section includes descriptions of the sample, as well as the measures and sources of data for all of the variables of interest. The fifth section focuses on the analysis of the data and the results. Finally, I conclude with a discussion of the results.

Theory and Hypotheses

As mentioned previously, there has been a great deal of work that has examined the relationship between CSP and CFP. To develop a more complete understanding of how a firm's history of CSP is expected to impact the CSP–CFP relationship, it is first necessary to understand how CSP is expected to drive CFP in the first place. In their seminal work examining the impact of a firm's marketing efforts on financial performance, Srivastava, Shervani, and Fahey (1998) demonstrate how marketing efforts drive the expected future cash flows of the firm. Specifically, there are four ways in which marketing spending can have an impact on cash flows. It can: 1) accelerate cash flows, 2) enhance cash flows, 3) reduce volatility and risk in cash flows, and 4) develop intangible assets. According to their work, these impacts result in increased expectations by investors about the long-term value of future cash flows, which are ultimately reflected in the value of a firm's stock.

When I approach the impacts of CSP from this perspective, I discover that the findings of past work in the management and marketing literature suggest that CSP can have an impact on cash flows in much the same way as other marketing expenditures. Table 3.1 summarizes the key findings from the extant literature with respect to the impacts on cash flows proposed by Srivastava, Shervani, and Fahey (1998). The first

row describes the findings of past literature with respect to the acceleration of cash flows as a result of CSP. Specifically, past research has demonstrated that a firm's CSP increases the purchase of a firm's products (Sen, Bhattacharya, and Korschun 2006), customer willingness to try new products (Du, Bhattacharya, and Sen 2007), contact with the firm by customers (Sen and Bhattacharya 2001), and loyalty (Bhattacharya and Sen 2004; Du, Bhattacharya, and Sen 2007). According to the diffusion literature, these effects are likely to accelerate new product adoption by influencing the speed with which innovative customers adopt the product, which can in turn increase the speed with which imitating customers adopt a new product. This increased speed of adoption allows firms to capitalize more quickly on their new products and to accelerate the cash flows of the firm (Mahajan, Muller, and Bass 1990).

The second row of Table 3.1 demonstrates past findings with respect to the effect of CSP in terms of enhancing cash flows. First, prior work has demonstrated that a firm's CSP can increase advocacy behavior, such as brand evangelism and positive word of mouth (Bhattacharya and Sen, 2004; Du, Bhattacharya, and Sen, 2007; Hoeffler and Keller 2002). To return to the marketing literature on diffusion, increased advocacy behavior and word of mouth augment the total size of the market for a firm's products by promoting the adoption of new products by imitators (Mahajan, Muller, and Bass 1990), which in turn enhances the level of cash flows that a firm experiences. In addition to the impacts on product adoption, researchers have found that CSP can increase consumer willingness to pay (Bhattacharya and Sen 2004; Trudel and Cotte 2009) while at the same time lowering the cost of differentiating an offering in consumer's minds, which results

in the improvement of a firm's margins (Gourville and Rangan 2004), increasing profitability and cash flows.

The third projected impact on cash flows is the reduction in volatility and risk, which is demonstrated in the third row of Table 3.1. Specifically, past research has shown that a firm's CSP generates a reservoir of goodwill that insulates it from negative information (Bansal and Clelland 2004; Dawar and Pillutla 2000; Godfrey 2005; Klein and Dawar 2004), which helps to generate stability in cash flows (Luo and Bhattacharya 2006; Korschun 2008) and generates an insurance-like effect for the firm (Godfrey, Merrill, and Hansen 2009). Recent work has demonstrated that these consumer level effects do indeed transfer up to the level of a firm's stock valuation, finding that a firm's CSP reputation decreases idiosyncratic risk and reduces stock price volatility (Luo and Bhattacharya 2009).

Finally, there is evidence that CSP efforts can have an impact on the development of a firm's intangible assets. Work in the marketing literature has demonstrated that firm CSP reputation has an impact on customer satisfaction that in turn generates intangible value for the firm (Luo and Bhattacharya 2006). Furthermore, there is evidence in the literature that CSP generates brand equity (Hoeffler and Keller 2002; Rust, Lemon, and Zeithaml 2004) and relational wealth or equity (Du, Bhattacharya, and Sen 2007; Luo and Bhattacharya 2009), which are two of the key components of customer equity (Rust, Lemon, and Zeithaml 2004).

The results of previous research demonstrate that CSP can have an impact on the expectations of future cash flows and subsequent financial valuation of the firm. For the

purpose of the present research in developing an understanding of the impact of CSP on CFP and the impact of firm history of CSP, I rely on the efficient markets theory of asset prices (Fama 1970). Specifically, the efficient markets theory suggests that unanticipated actions by firms that are likely to have an effect on a firm's cash flows will be capitalized into the firm's stock prices by the stock market. Given the discussion above, the CSP actions of a firm are likely to affect the four key aspects of a firm's cash flow that have an impact on expectations of a firm's future cash flows, and as such are likely to be capitalized into a firm's stock price. Furthermore, this theory suggests that if all past information that is already available to the stock market can be controlled for, then only new, unanticipated actions by the firm are likely to be capitalized into a firm's stock price. Therefore it is most appropriate to examine this question as a changes model in which we examine how changes in CSP are translated into expectations about the future cash flow potential, and subsequently the market capitalization, of the firm. As a result my hypotheses will be formulated with respect to the impact of CSP on the stock valuation of the firm.

There is, however, one important caveat issued in several studies of the impact of CSP on stakeholder responses. Specifically, the positive stakeholder responses that drive these impacts on cash flows are highly dependent on the reputation of the firm, the attributions that stakeholders make, and the perceived credibility of claims and beliefs about the commitment to CSP by a firm (Barone, Miyazaki, and Taylor 2000; Ellen, Webb, and Mohr 2006; Sen, Bhattacharya, and Korschun 2006). Past work has argued that CSP provides insight into a company's "values" (Turban and Greening, 1997),

“soul” (Chappell 1993), or “character” (Brown and Dacin 1997), and that individual perceptions of a company as a whole lie in what they have learned, felt, and seen about the brand as a result of experiences over time (Hoeffler and Keller 2002). To take it a step further, past work has argued that corporate associations held in memory serve as the “reality” of the organization for an individual (Brown and Dacin 1997). The question, then, becomes one of how firms can generate the requisite positive attributions, perceived credibility and belief in its commitment to CSP.

An answer to this question comes from Erdem and Swait (1998), who argue that the value of a brand comes in the ability to credibly signal information about some unobservable characteristics of the firm to external stakeholders, and that the credibility of the brand is a function of the investments that a firm makes to bolster the particular brand image, and the clarity and consistency with which these efforts are presented⁷. This argument parallels work in the strategic asset literature, which argues that a firm can accumulate a stock of a particular strategic asset, such as reputation or brand, by choosing the appropriate time paths of flows over a period of time (Dierickx and Cool 1989). These arguments are consistent with work in the CSP literature that argues that consistent behavior over time results in better attributions by stakeholders and in the ability to capture the many consumer level benefits that have been attributed to CSP (Du, Bhattacharya, and Sen 2007).

⁷ I follow the lead of previous researchers and define “brand” in an integrative sense as the sum total of consumer’s mental associations that take on both positive as well as negative meanings (Stern 2006; Du, Bhattacharya, and Sen 2007).

This suggests that the ability to credibly signal the unobservable motivation behind a firm's CSP is a critical factor in understanding the relationship between CSP and the expected financial benefits that such performance may generate. Recent work has examined the signaling phenomenon in the marketplace, comparing the efficacy of a "point signal," or information about a firm's attributes at a given point in time, with that of a "flow signal," or the trajectory of point signals over time, and has found that flow signals offer additional, valuable information that customers consider when making their purchase decisions (DeKinder and Kohli 2008). Specifically, this work details three properties of a "flow signal:" displacement, propensity, and reversals, which are critical to a firm's ability to credibly signal motivation and unobservable characteristics to the market.

The first property of a flow signal, displacement, captures the overall growth of a particular behavior and indicates whether a particular behavior is increasing or decreasing (directional aspect) and by how much (magnitude). Operationally, displacement looks at the difference between a firm's level of CSP at the beginning and end of the time window of interest. If stakeholders take the overall growth in CSP as a signal of a firm's motivation, then higher levels of displacement are likely to signal greater commitment to CSP. The second property of a flow signal, propensity, captures a firm's tendency to engage in a particular behavior in each successive period within a flow sequence. Operationally, propensity is calculated by scoring changes between two successive time periods as either a +1 for an increase in CSP, a -1 for a decrease in CSP, or a 0 for no change in CSP, which are then summed across the entire time window of interest. This

measure, like displacement, captures directional aspects of the flow, but does not capture the magnitude of the changes. It does, however, capture period-to-period changes in behavior and therefore gives us an indication of a firm's overall tendency for that behavior over time. If stakeholders take a firm's tendency toward increasing or decreasing CSP as a signal of motivation, then higher propensities are likely to signal greater commitment to CSP. Finally, the third property of a flow signal is reversals. Reversals refer to changes in direction in a firm's behavior from one period to the next and reflect the consistency of a firm's behavior across adjacent periods in a flow signal. Operationally, the reversals measure is a count of the number of times within a time window that a firm either: a) increases then decreases their level of CSP, or b) decreases then increases their level of CSP. Stakeholders are likely to view the number of reversals as a sign of inconsistency in a firm's actions, and they may take them as a signal of internal conflicts, confused goals and priorities, and weak management (DeKinder and Kohli 2008). Thus, as the number of reversals increases, stakeholders are unlikely to get a clear signal of firm motivation and therefore to have difficulty interpreting current period changes in CSP and as a result may discount, ignore, or at worst infer negative motivations behind such actions. DeKinder and Kohli (2008) go on to develop and test measures of each of the three properties of flow signals, and their measures will be the basis of the present work. A more detailed discussion of the calculations underlying each measure will be presented in the Methodology section.

In applying the flow signals framework to the current context, it becomes readily apparent that there are some potentially important differences between the context

studied by DeKinder and Kohli (2008), start-up firms, and the context of the present study, firm CSP. Specifically, apart from a handful of early movers in the CSP space, a majority of firms have begun their focus on CSP since the early 2000's, and this focus has been rising over the course of the past decade. The present analysis examines the years 2001 to 2007, so for the majority of firms nearly all of the movement in overall CSP activity is captured in the time frame that we examine. Given a similar starting point for a majority of firms in our sample it is likely that, for a firm, growth in its CSP (displacement) over this period may be correlated with its overall level of CSP, as well as its trend of either increasing or decreasing CSP (propensity). Though these measures are conceptually distinct, in the context of the present study it is possible that a single measure of the trajectory of the CSP of the firm, either displacement or propensity, will capture nearly all of the information from which the marketplace takes signals. Indeed, as discussed in the Analysis and Results section, I find that CSP displacement and propensity are highly correlated (see Table 3.2). To maintain consistency with the flow signals framework, I will consider all three flow signals measures in my analysis, but I will treat displacement and propensity as related measures and refer to them jointly as measures of a firm's CSP trajectory in the development of my hypotheses and in the empirical analysis.

To address our key research questions, it is critical to develop a theoretical understanding of how we expect the market to respond to changes in the CSP level of a firm given a particular history of CSP, and how these responses will be capitalized into the stock valuation of the firm. We argue, from the perspective of expectancy

disconfirmation theory (Oliver 1980), that the history of CSP by a firm signals information to the market about the firm's unobservable CSP motivations. In so doing, the historical path of CSP by the firm will become integral in establishing the reputation of a firm, expectations about the future actions of a firm, and how changes in CSP are likely to affect the its future cash flows. In this case, expectancy confirmation theory suggests that when individuals are presented with new information that is consistent with their prior expectations (confirmation), there is little need for response or additional cognitive effort. However, when presented with information that is contradictory to their prior expectations (disconfirmation), individuals will respond by interpreting the information relative to their prior expectations in determining their response to that information (Oliver 1980). This framework has been used extensively in several different bodies of literature, particularly in studies of consumer satisfaction in the marketing literature, and investor response to new information when making investment decisions in the accounting literature (e.g. Hirst, Koonce and Simko 1995).

I now turn to a discussion of the hypotheses that we examine in the present work.

Hypotheses

My first hypotheses are with respect to the main effect of CSP on a firm's stock market valuation. It has been observed in the previous literature that, in general, higher (lower) levels of positive CSP are associated with positive (negative) stakeholder outcomes that are believed to translate into increased (decreased) expectations of future CFP. Above and beyond the individual-level findings that were previously discussed,

there have also been numerous studies that have directly examined the relationship between higher levels of positive CSP and CFP and that, in total, seem to indicate that higher levels of CSP are indeed associated with increased CFP (Orlitzky, Schmidt, and Rynes 2003). Studies in marketing and management have found that higher levels of CSP translate into increased customer satisfaction that leads to higher values of a firm's intangible value (Luo and Bhattacharya 2006) as well as to higher positive abnormal stock returns in the marketplace (Godfrey, Merrill, and Hansen 2009). Similarly, many studies have also examined the impact of negative CSP, and the general finding seems to be that negative CSP has a negative impact on the CFP of the firm (for a summary, see Margolis and Walsh 2001, 2003). In a working paper, Groening, Swaminathan, and Mittal (2007) find that externally focused negative actions result in decreases in a firm's intangible value. Therefore, I suggest the following hypotheses:

H1: Increases in positive CSP in the present period are related to increases in stock market valuation in the present period.

H2: Increases in negative CSP in the present period are related to decreases in stock market valuation in the present period.

Given my research questions, the effects on stock market valuation of the interaction between a firm's current period CSP efforts with the measures of CSP history are the hypothesized relationships of greatest interest. I first examine the effects of a

firm's history of negative CSP (H4 and H5) and then turn to the effects of a firm's history of positive CSP (H5 and H6) on the relationship between current period changes in positive and negative CSP actions and stock market valuation.

As detailed in the theory development section, past literature on CSP has found that a history of negative CSP is likely to result in negative attributions by stakeholders, which in turn will have a negative impact on stakeholder response to a firm's CSP (Ellen, Webb, and Mohr 2006; Sen and Bhattacharya 2001). Furthermore, research has found that firms with a higher level of past negative CSP experienced no reduction in negative abnormal returns from any level of positive CSP after a negative event (Godfrey, Merrill, and Hansen 2009). This finding provides some evidence that firm history could impact the relationship between CSP and stock price, and that a sufficiently negative history of action may counteract the positive stock market valuation implications of positive CSP by firms. This previous work examines only the effects of a firm's failures on social performance, and the effect of the prior period's level of a firm's positive and negative social behavior (a point signal, in the language of DeKinder and Kohli 2008). Although this previous work looks only at the interaction of past levels of positive and negative actions, it does suggest the possibility of The CSR Black Hole that is the focus of one of my key research questions. These findings are consistent with evidence in the expectancy disconfirmation literature that suggest that there is a dissonance reduction effect for new information that contradicts an individual's expectations. Specifically, the theory suggests that judgments of the value of new information will be assimilated to be in line with prior expectations (Oliver and DeSarbo 1988). Under this scenario, a higher

history of negative CSP can create a situation under which the current period changes in positive CSP of a firm actually result in smaller (or even negative) changes in stock market valuation, as the negative attributions and response of stakeholders cause stock market participants to reduce their previous expectations of the future cash flows of the firm. Therefore, I hypothesize that a firm's history of negative CSP will reduce the positive impact that results from a firm's current period changes in positive CSP.

H3a: A stronger trajectory of negative CSP (either greater displacement or propensity) negatively moderates the positive relationship between a firm's current period changes in positive CSP and current period changes in stock market valuation.

H3b: More inconsistency in negative CSP (a higher number of reversals) negatively moderate the positive relationship between a firm's current period changes in positive CSP and current period changes in stock market valuation.

The next effect I examine is the impact of a firm's history of negative CSP on the relationship between current period changes in negative CSP and changes in stock market valuation. The expectancy disconfirmation theory suggests that when it comes to the expectations of individuals, the current behaviors of a firm are judged from the perspective of its past behaviors, and individuals will respond to only those actions that stand out as being different from past actions (Oliver 1980; Sherif and Hovland 1961).

Furthermore, prospect theory (Kahneman and Tversky 1979) suggests that individuals have reference points that can be based on past experience or perceptions, and that only departures from the reference point create sufficient motivation to stimulate a response by that individual. As applied to the present question, these phenomena suggest that when a firm has a history of negative behaviors, additional negative actions may not stand out as being different from an individual's expectations; therefore, a response from that individual is unlikely. On the other hand, this argument suggests that, for firms with a low history of negative CSP, increases in negative CSP are likely to stand out and therefore stimulate a negative stakeholder response. In other words, this phenomenon suggests that there could be a floor effect with respect to a negative history of CSP. Specifically, for firms with an extensive history of negative behavior, additional negative actions result in no change in stakeholder response or current CFP, whereas for those firms with little history (or with an inconsistent history) of negative behavior, additional negative actions are likely to result in negative changes in individual stakeholder response and therefore in expectations about the future cash flow potential of the firm. Therefore, I hypothesize a positive moderation effect of CSR history on the negative relationship between increases in current period negative CSP and stock market valuation.

H4a: A stronger trajectory of negative CSP (either greater displacement or propensity) positively moderates the negative relationship between a firm's

current period changes in negative CSP and current period changes in stock market valuation.

H4b: More inconsistency in negative CSP (a higher number of reversals) negatively moderate the negative relationship between a firm's current period changes in negative CSP and current period changes in stock market valuation.

Similar to the preceding discussion of Hypothesis 5a-b, it is also possible that for firms with a strong history of positive CSP, individuals are unlikely to respond to additional positive CSP by the firm, suggesting a ceiling effect on positive CSP. In other words, at a sufficiently high level of positive CSP history, additional positive CSP results in no response from individual stakeholders, and therefore no effect on expectations of future cash flows for the firm. On the other hand, firms with a limited history of positive CSP are likely to generate a contrast effect whereby their current period changes in positive CSP are likely to generate a response by individuals, which may carry over to increased expectations of future cash flows. This argument corresponds to the suggestion of previous literature that there is a ceiling effect for CSP investments, so that for companies with a high reputation for CSP, additional CSP efforts may not help (Bhattacharya and Sen 2004; Creyer and Ross 1997). In addition, reversals, if taken as an uncertain signal of firm CSP motivation, may also cause stakeholders to respond less positively since they are unsure of what additional positive CSP tells them about the firm. Therefore, I hypothesize a negative moderation effect of positive CSP history on the

positive relationship between increasing current positive CSP actions and changes in stock market valuation.

H5a: A stronger trajectory of positive CSP (either greater displacement or propensity) negatively moderates the positive relationship between a firm's current period changes in positive CSP and current period changes in stock market valuation.

H5b: More inconsistency in positive CSP (a higher number of reversals) negatively moderate the positive relationship between a firm's current period changes in positive CSP and current period changes in stock market valuation.

Finally, I examine the effect of a firm's positive CSP history on the relationship between changes in current period negative CSP and changes in stock market valuation. As mentioned previously, past work has found that a firm's history of positive behavior (typically experimentally manipulated) generates a reservoir of goodwill (Dawar and Pillutla 2000) or "moral capital" (Godfrey 2005) that results in resilience in the face of negative information about the firm (Bansal and Clelland 2004; Klein and Dawar 2004) and that can therefore create an insurance-like effect (Godfrey, Merrill, and Hansen 2009). Again, these findings are consistent with the assimilation effects detailed in our discussion of hypotheses 3 a-b, such that when presented with new information that is contradictory to the positive CSP history of the firm, individuals will respond less

negatively to the negative information as a result of the positive expectations generated through a firm's positive CSP history (Oliver and DeSarbo 1988). Therefore, I hypothesize a positive moderation effect of positive CSP history on the relationship between a firm's current period changes in negative CSP and changes in stock market valuation.⁸

H6a: A stronger trajectory of positive CSP (either greater displacement or propensity) positively moderates the negative relationship between a firm's current period changes in negative CSP and its current period changes in stock market valuation.

On the other hand, since a higher number of reversals in a firm's history of positive CSP may decrease the credibility of a firm's current CSP efforts, I would expect that a higher number of reversals would dissipate this insurance-like effect; therefore:

H6b: More inconsistency in positive CSP (a higher number of reversals) do not moderate the negative relationship between a firm's current period changes in negative CSP and current period changes in stock market valuation.

⁸ It should also be pointed out with respect to H3a-b and H6a-b that a reference point effect (as hypothesized in H4a-b and H5a-b) might also exist, although the evidence in the CSR literature supports my hypotheses. Specifically, the contrast effect in the case of H3a-b would suggest that, for firms with a strong negative history, additional positive behavior may in fact generate more attention from consumers and be more likely to generate a positive response. Similarly, for H6a-b, for firms with a sufficiently positive history, negative actions would stand out more and would be likely to generate greater punishment by consumers. These arguments suggest alternate hypotheses for those that I have suggested and can be tested using the same model that I estimate.

I now turn to a discussion of the sample, measures, and methodology that will be used to examine these hypotheses.

Methodology

Sample

For the purpose of the present study, we again use the KLD Stats database, which measures social and environmental performance of 4,000 firms along the dimensions noted in Table 2.1. As noted previously, this database has been used rather extensively in the management literature and has become the standard for quantitative measurement of corporate social action (Mattingly and Berman 2006), but has seen limited use in the marketing literature, with the exception of Kashmiri and Mahajan (2010).

As discussed in chapter two, the use of this dataset provides three benefits over measures that have been used previously in the marketing literature. First, KLD Stats captures seven dimensions of socially responsible behavior, each broken into several sub-domains, therefore allowing me to capture a firm's overall social performance across a broad range of domains, which is critical both theoretically and practically. Second, KLD Stats is based on the actual behavior of the firms and therefore is not subject to the same biases that perceptual measures of CSP may suffer from. Finally, KLD Stats data, while still compiled by a single entity, are collected from a broad range of independent sources that include direct communication with company officers, communication with a

global network of CSR research firms, monitoring of more than 14,000 global news sources, corporate proxy statements, quarterly and annual reports, and government and NGO information.

As discussed in chapter two, The KLD Stats database includes the firm's social performance information on seven dimensions, including: community relations, employee relations, product issues, corporate governance, diversity, human rights issues, and environmental performance. Each of these dimensions consists of a series of different sub-domains that are further broken down into both positive and negative actions by firms that are represented by binary scores of either zero (for actions that the firm has not taken) or one (for actions that the firm has taken) for each year in the database. Table 2.1 shows examples of the KLD Stats database for the two firms mentioned in our initial example, Lexmark and Adobe, for the year 2007, which are discussed in detail in chapter two. For these two firms, one can see similar levels of actions in both positive and negative sub-domains in the year 2007; however, the two vary significantly in terms of the path that they have taken to reach this point, as is demonstrated in Figure 3.1. Note that negative ratings do not preclude receiving positive ratings, since the positive and negative dimensions are scored separately, which is consistent with previous research that has demonstrated that the KLD measures of positive and negative actions are empirically and conceptually distinct (Mattingly and Berman 2006).

For the purpose of the present research, I focus on public firms in the United States and draw the original sample from all S&P 500 firms in the KLD Stats database,

since these companies have been tracked consistently over the entire lifespan of the database.

The KLD Stats database was augmented with data from S&P's COMPUSTAT database, which includes firm financial data gathered from quarterly and annual reports, and which was used to capture several of the measures of interest for this study, in particular the measures of changes in stock market valuation, firm history of stock market valuation, and several control variables to be used for the estimation of the effects of CSP on stock market valuation.

The sample used in this analysis includes 351 firms that were observed for each year during the 8-year period from 2000 to 2007, for which I was able to obtain data on the independent variables of interest, either through the S&P's COMPUSTAT or through my own secondary data collection efforts. The final sample represents a cross section of industries across 52 two-digit SIC codes.

Data Sources and Measures

Table 3.4 gives a brief summary of the data sources and measures to be used to conduct the present research, and Table 3.5 includes summary statistics with respect to each of the measures of interest, which will be described in greater detail below.

Dependent Variable: Firm Intangible Value

Like other works in the marketing literature, I use firm intangible value, measured as the Tobin's q ratio, as my measure of stock market valuation. Functionally, Tobin's q

is the ratio of the market value of the firm to the replacement cost of the firm's assets, and it is a forward-looking measure that provides market-based views of investor expectations of the firm's collective future cash flows to the firm's equity and bondholders, discounted at an appropriate rate (Rao, Agarwal, and Dahlhoff 2004). Beyond this purely functional definition, several marketing studies have used Tobin's q to try to understand the value of marketing and company activities. Specifically, Tobin's q has been used as a measure of brand equity (Simon and Sullivan 1993), as a measure of the value of marketing strategies (Day and Fahey 1988), to understand the effects of information technology on firm performance (Bharadwaj, Bharadwaj, and Konsynski 1999), and to understand the effects on the intangible firm value of the three primary firm-branding strategies: corporate, mixed, and house-of-brands (Rao, Agarwal, and Dahlhoff 2004). Given the previous discussion of the effects of CSP on the cash flows of the firm and the subsequent impact on the stock market valuation of a firm, this measure is the most appropriate for the impact of CSP on stock market valuation. For the purpose of the present article, I use the approximation for Tobin's q that is proposed by Chung and Pruitt (1994), the details of which are included in Table 3.4. All data required for the calculation of Tobin's q were drawn from COMPUSTAT.

Independent Variables

The first independent variable of interest is the change in a firm's CSP in the focal year of interest. Specifically, this variable is calculated as the difference between a firm's total level of CSP at time t and the level of CSP at time t-1. This measure is calculated

separately for both positive and negative actions and allows us to capture changes in a firm's CSP in the current period. These measures are calculated using data from KLD Stats.

The final set of explanatory variables of interest is the flow signal measures proposed by DeKinder and Kohli (2008). Each of the three flow signal measures (displacement, propensity, and reversals) was calculated for both positive and negative actions, and over several different time windows ranging from 3 to 6 years. The first of these measures that I calculate is displacement. This measure is operationalized as the difference between the level of positive or negative CSP in the last year of the flow window (time $t - 1$) and the level of positive or negative CSP in the first year of the flow window (time $[t - 1] - T$, where T is the length of the flow window of interest). Thus, for a 4-year time window ($T = 4$), I computed the displacement of positive (negative) CSP as the difference between the total level of positive (negative) CSP in 2006 and the total level of positive (negative) CSP in 2002. To return to the previous example (Figure 3.1), one can see that for positive CSP, both firms have a positive displacement between 2002 and 2006, with Lexmark's displacement of +1 and Adobe's displacement of +3. The second measure that I calculate is propensity. This measure is calculated as follows: First, positive changes in either positive or negative CSP in two adjacent periods are scored as +1, negative changes are scored as -1, and no changes are scored as 0. Second, these scores are summed across the T periods in the flow window to obtain the propensities for both positive and negative CSP. Thus, for a 4-year window ($T=4$), changes from 2002 to 2003, 2003 to 2004, 2004 to 2005, and 2005 to 2006 are calculated,

and these changes are then summed to generate the propensity measures. In the previous example (Figure 3.1), one can see that Lexmark's positive CSP increased from 2002 to 2003 (+1), decreased from 2003 to 2004 (-1), did not change from 2004 to 2005 (0), and increased from 2005 to 2006 (+1), for a total propensity sum of +1. Finally, reversals in positive or negative actions are measured as the number of years in flow window T for which a firm's number of actions increases (decreases) after having decreased (increased) in the previous year. Thus, for a 4-year window, reversals are the number of times between 2002 and 2006 in which the number of positive or negative actions decreased (increased) after having increased (decreased) in the previous year. Again, the previous example of Lexmark demonstrates this concept (Figure 3.1), since one can see that negative CSP increased prior to 2003 followed by a decrease in 2004 for a first reversal, and then decreased prior to 2005, followed by an increase in 2006 for a second reversal. These three variables will be used as measures of the firm's history of CSP to estimate the key moderation effects of interest in my models.

Control Variables

The first control variables are the past levels of positive and negative social performance (point signals) that are operationalized as separate measures of the total positive and negative social performance at time $t-1$. In one previous study (Godfrey, Merrill, and Hansen 2009), this measure was used as a measure of a firm's past behavior; therefore, we will use this measure to control for the informative value of using only the previous level of social performance against the informative value of using the flow

signals framework (DeKinder and Kohli 2008). This measure is calculated using data from KLD Stats.

The next control variable that I include is the value of Tobin's q at time $t-1$, which has been demonstrated to be the strongest predictor of Tobin's q in the current period. The inclusion of this control variable allows me to capture the impacts of any factors that affected Tobin's q prior to the present period, thus helping to control for both observable and unobservable factors that influence Tobin's q .

In their study of the relationship between CSP and CFP, Surroca, Tribo, and Waddock (2010) suggest controlling for five additional firm characteristics when examining the impact of CSP on CFP: physical resources, leverage, financial resources, size, and risk. I control for all of these features, except risk (firm beta), which is theoretically stable over short periods of time and is expected to have been capitalized in past levels of firm intangible value (Tobin's q at time $t-1$). The physical resources of a firm are measured using capital intensity, which represents the proportion of the permanent assets of the firm (Russo and Fouts 1997). Leverage is the ratio of the accounting value of debt to the accounting value of equity, and it represents the degree to which a firm must focus its resources on servicing debt versus capital investment (Waddock and Graves 1997). Financial resources are measured using the cash-flow-to-revenues ratio—an approximation of the liquidity of a firm (Griffin and Mahon 1997). Finally, firm size has been shown to be a predictor of both a firm's CSP and CFP (Ullman 1985); therefore, I include a control for firm size, operationalized as the log of the total number of employees. Finally, I include a control for firm profitability, since

firms with more slack resources have been found to have higher levels of social performance (Surroca, Tribo, and Waddock 2010) and because profitability also drives the stock valuation of a firm. Therefore, I include a control for a firms' return on assets (ROA).

It is also both theoretically and empirically critical to control for unobservable effects of a firm's industry since it is likely that there are different levels of competitive and normative pressure that result from the industry in which a firm operates that may drive CSP and affect the relationship between CSP and stock market valuation. The inclusion of a control for a firm's industry also corresponds to a recommendation from the previous literature that it is critical to take into account the differences between industries when examining the impacts of CSP (Bhattacharya and Sen 2004; Luo and Bhattacharya 2009). Therefore, I add a series of fixed-effect dummies for the industry in which a firm operates (by two-digit SIC) as a set of controls. As a result, all of the variables of interest enter the analysis as scores relative to those of the industry mean on each variable.

Analysis and Results

Based on the structure of the conceptual model and the included variables of interest, the equation I estimate is as follows:

$$(1) \quad Q_{it} = B_1 * PosChg_{it} + B_2 * NegChg_{it} \\ + B_3 * PosDisp_{iT} + B_4 * PosProp_{iT} + B_5 * PosRev_{iT}$$

$$\begin{aligned}
& + B_6 * \text{NegDisp}_{iT} + B_7 * \text{NegProp}_{iT} + B_8 * \text{NegRev}_{iT} \\
& + B_9 * \text{PosChg}_{it} * \text{PosDisp}_{iT} + B_{10} * \text{PosChg}_{it} * \text{PosProp}_{iT} \\
& + B_{11} * \text{PosChg}_{it} * \text{PosRev}_{iT} + B_{12} * \text{NegChg}_{it} * \text{NegDisp}_{iT} \\
& + B_{13} * \text{NegChg}_{it} * \text{NegProp}_{iT} + B_{14} * \text{NegChg}_{it} * \text{NegRev}_{iT} \\
& + B_{15} * \text{PosLevel}_{it-1} + B_{16} * \text{NegLevel}_{it-1} + B_{17} * Q_{it-1} + B_{18} * \text{ChgPhysRes}_{it} \\
& + B_{19} * \text{ChgLeverage}_{it} + B_{20} * \text{ChgFinRes}_{it} + B_{21} * \text{ChgSize}_{it} \\
& + B_{22} * \text{ChgROA}_{it} + \mu_j
\end{aligned}$$

Where:

Q = Tobin's q

PosChg_{it} = change in positive CSP from period $t-1$ to period t

NegChg_{it} = change in negative CSP from period $t-1$ to period t

PosDisp_{iT} = positive CSP displacement over time window of length T

PosProp_{iT} = positive CSP propensity over time window of length T

PosRev_{iT} = positive CSP reversals over time window of length T

NegDisp_{iT} = negative CSP displacement over time window of length T

NegProp_{iT} = negative CSP propensity over time window of length T

NegRev_{iT} = negative CSP reversals over time window of length T

PosLevel_{it-1} = positive CSP level at period $t-1$

NegLevel_{it-1} = negative CSP level at period $t-1$

ChgPhysRes = change in physical resources in current period

ChgLeverage = change in leverage in current period

ChgFinRes = change in financial resources in current period

ChgSize = change in the firm's size in current period

ChgROA = change in the firm's ROA in current period

μ_j = industry dummies

As expected based on our previous discussion of the application of the flow signals approach to the CSP context (and shown in Table 2), there is a high correlation between past levels of CSP, CSP displacement, and CSP propensity, which may result in empirical multicollinearity issues (similar results were found across time windows). As a result, I examined the VIF associated with the independent variables and found that when I keep all three measures in the model, several of our key VIF factors exceed 10, which provides evidence of multicollinearity (Kennedy 2008). To correct for multicollinearity, I examined the VIF factors when I removed each measure individually and found that the issues appear to be driven by significant multicollinearity between the CSP displacement and past CSP levels measures. As a result, I ran the analysis separately, including past levels in some models and using CSP displacement in others, and found that when I do so, none of the VIF factors exceed 4.0, providing evidence of a minimal impact of multicollinearity on the results (Kennedy 2008). I did not find major differences in the results by using either measure, so I chose to report the models including CSP displacement along with the other flow signals measures to remain consistent with my hypothesis development.

The analysis consists of differences regressions using OLS estimation, controlling for the industry in which a firm operates. I run three separate models to examine the

research questions of interest. Model 1 includes a full set of interactions of the changes in positive and negative CSP at time t with the three measures of firm history of CSP and allows me to examine Hypotheses 4–7 more closely across several different time windows. Despite the examination of multicollinearity and adjustments to the model noted previously, which result in acceptable VIF factors, there is still empirical evidence of a strong correlation between CSP displacement and propensity, for both positive and negative CSP (see Table 3.2). As a result, I estimate two additional models, Model 2 which excludes the impact of the propensity for positive and negative CSP, and Model 3 which excludes the impact of the displacement in positive and negative CSP. The use of two models separating displacement and propensity is consistent with the previous discussion of displacement and propensity as two conceptually distinct constructs of a firm's historical trajectory of CSP, and is also consistent with my hypothesis development.

I ran the analysis for multiple time windows (3, 4, 5, and 6 years). Overall, I found similar results for the 4- and 5-year windows, but it appears that a 3-year window is not long enough to capture the impact of a firm's history and that at 6 years history seems to lose its moderating impact. These results suggest that the market may use a firm's history over the past 4 or 5 years in developing perceptions of commitment to CSP. As a result, I choose to report results with respect to the 4-year window.

Results

The results of all models are included in Table 3.6. First, I find support for H1 in all three models estimated that changes in the positive CSP of a firm in period t are related to increased firm intangible value ($p < .05$). I find no support for H2 in any of the models, since I find a nonsignificant impact of changes in negative CSP during time t on firm intangible value. With respect to H3, in all three models estimated I find that the reversals in a firm's negative CSP history ($p < .05$) negatively moderate the relationship between increases in positive CSP in period t and firm intangible value—a result that supports H3b. When I estimate models 2 and 3 which reduce the impact of the high correlation between negative CSP displacement and propensity, I also find that both the displacement in negative CSP (Model 2, $p < .05$) and the propensity for negative CSP (Model 3, $p < .05$) both negatively moderate the positive relationship between increases in positive CSP and firm intangible value. Put more simply, firms with an inconsistent history of negative CSP (fluctuating between increases and decreases in negative behavior year over year), a history of growth in negative CSP, or an increasing trend in negative CSP experience significantly lower returns from their current period changes in positive CSP than firms with lower levels of each of these three measures. Furthermore, in examining the results of all three models, it appears that reversals in a firm's CSP history have nearly double the impact of the other measures of a firm's history, suggesting that while an increasing trajectory of negative CSP decreases the positive stock valuation implications of a firm's positive CSP actions, it is inconsistencies in CSP over time for which the firm will be most severely punished. These results support H3a and H3b. With respect to H4 and H6, I find no moderating effects of any of the history

measures on the impact of changes in negative CSP during period t on firm intangible value—a result that I address in the Discussion and Implications section. Finally, with respect to H5, I find support for H5b in both models 1 and 3 that firms with more reversals in their history of positive CSP experience a negative moderation effect ($p < .05$) in the relationship between changes in positive CSP in period t and firm intangible value. Similar to the result that I found for reversals in negative behaviors, I find that firms that have an inconsistent history of positive CSP also experience lower returns in terms of intangible value from their current period changes in positive CSP. It is also important to note that, consistent with the efficient markets theory, the coefficients on the main effects of the three CSP history measures are non-significant which indicates that these measures, which are known to the market prior to the current period, have no impact on intangible value apart from being an important lens through which the current period changes in positive CSP are judged.

Ultimately, my results provide evidence that, in general, firms that increase their positive CSP experience positive gains in their intangible value, but that firms with a stronger trajectory of negative CSP (either a history of growth in negative CSP or a trend toward increasing negative CSP) or a more inconsistent history of positive or negative CSP (reversals) experience smaller returns from their current period changes in CSP.

Robustness Checks

The first robustness check was with respect to the chosen measures of firm CSP history. It could be argued that what is really being captured by the flow signals

measures are CSP levels and variability in CSP by the firm. As a result, I have also estimated a version of the model that excludes the flow signals measures of CSP history, and instead includes controls for a firm's past level of CSP and the variability in their CSP levels over the multiple time windows (3-6 years). I include variability in CSP levels by calculating the coefficient of variation in CSP over the various time windows of interest. When I run these regressions I find that including measures for the past level and the variability in CSP do not provide the insights that the three flow signal measures offer in terms of understanding the moderating effect of the history of CSP on the relationship between CSP and CFP. More specifically, running the regressions with these alternate measures of CSP history does not result in any significant interaction terms, and in fact the only main effect that is found in multiple time windows is the positive impact of increasing positive CSP on firm intangible value. Thus, I conclude that the flow signals measures are offering insight above and beyond simply capturing information about the variability of firm behavior with respect to CSP.

A second robustness check was to include measures for a firm's history of CFP to ensure that my measures of the history of CSP behavior were not capturing the effects of having omitted CFP history. As such, I also ran a model including the displacement, propensity, and reversals in firm ROA, and found no improvement in model fit and no significant changes in the findings.

A final important robustness check is suggested by the work of Irwin and McClelland (2001). Specifically, their work suggests that for proper interpretation of interaction effects it is important to mean center the variables of interest. When I run this

additional analysis, mean centering all variables, I find that the key findings of our analysis remain unchanged in terms of support for our hypotheses.

Discussion and Implications

The present study seeks to address two important research questions: 1) Does CSP history have an impact on the relationship between CSP and CFP? and 2) Is there a CSR Black Hole with respect to a firm's history of negative behaviors? Overall, my findings suggest that a firm's history of CSP does have a significant impact on the relationship between CSP and CFP. In particular, I find that the history of a firm's CSP over time is a significant moderator of the CSP–CFP relationship; firms with a stronger trajectory of negative CSP (either a history of growth in negative CSP or a trend toward increasing negative CSP) or a more inconsistent history of positive or negative CSP can actually experience reduced effectiveness of their current period changes in positive CSP.

In fact, I find that, with a sufficiently negative history, it is possible for firms to experience negative returns as a result of increasing positive CSP, supporting the existence of a CSR Black Hole. To return to the example of Lexmark and Adobe, I examine two hypothetical scenarios in Table 3.7 and estimate the changes in intangible value that result from each firm, increasing their positive CSP in successive periods (based on estimates from Model 1). For the Lexmark scenario, I find that an increase in positive CSP by Lexmark in 2007 is actually expected to decrease the firm's intangible value. This is primarily a result of the reversals that have occurred in Lexmark's CSP history, which dissipate any positive returns that having increased positive CSP might

have generated. The next interesting question, then, is whether or not Lexmark can escape this situation in which increasing positive CSP harms intangible value. As demonstrated in Table 3.7, maintaining its path (increasing positive CSP each year with no change in negative CSP) actually creates a situation in which Lexmark can escape the CSR Black Hole. In fact, my estimates predict that maintaining the steady path will result in the stabilization of Lexmark's returns from positive CSP in a matter of just 2 or 3 years.

The next question one might ask is whether or not a firm with a positive CSP history is somehow immune to or insured against the CSR Black Hole. I address this question with a look at a hypothetical scenario for Adobe. It is clear from Figure 1 that Adobe has a stable history of CSP and that it has been steadily increasing performance in its positive CSP, resulting in a predicted increase in the firm's intangible value as a result of its increase in positive CSP in 2007. For this hypothetical situation, I examine a scenario in which Adobe reduces positive CSP for just 1 year, 2008, and then returns to the previous trend of increasing positive CSP by one domain of action in each year thereafter. Table 3.7 demonstrates the impact of such a change. My results suggest that in 2008, Adobe will experience a decline in its intangible value as a result of reducing its positive CSP, but that is not the end of the story. In fact, Table 3.7 demonstrates that in 2009, Adobe will experience a slight increase as a result of resuming its positive path, but that after 2009, when the two reversals become apparent in Adobe's history, it will actually experience no increase in its intangible value as a result of increasing its positive CSP. This trend will continue until Adobe has reestablished a consistent 4- or 5-year

history. Thus, just because a firm has had a negative history, it does not mean that it cannot experience the payoffs of CSP, but it may take time. On the other hand, just because a firm has a positive history of CSP, it does not mean that it can rest or afford to ignore its CSP, since it, too, can experience the CSR Black Hole by failing to maintain a consistent path of behavior.

One unexpected finding of my results is the lack of impact of negative behaviors of a firm, both in terms of a main effect and in terms of the estimated interaction effects. On the whole, I find that negative CSP does not have a direct impact on a firm's intangible value. My results instead suggest that it is only the history of negative behaviors that has any impact the intangible value of the firm, and that this impact comes in the form of a firm's history of negative CSP being the lens through which the positive actions of a firm are judged. According to some studies, cynicism about the behaviors of US corporations is currently at an all time high and is on the rise (Austin, Plouff, and Peters 2005). When one considers this growing trend from the perspective of the discussion of the contrast effect in the theory section, it could suggest that American stakeholders, at this time, are so cynical about the behaviors of US firms that, unless a failure by a firm is of catastrophic proportions (e.g., the BP oil spill in the Gulf of Mexico), it does not stand out in the minds of individuals as being anything more than what was expected, and it therefore does not warrant a response. My results suggest, on the other hand, that when a firm can credibly signal its positive CSP motivation in the marketplace, it will be rewarded for its efforts.

CHAPTER FOUR: DISCUSSION AND IMPLICATIONS

The purpose of this dissertation was to address the following two questions: 1) What are the processes and motivations that underlie the inclusion of CSP in firm strategic decisions? and 2) Why do some firms generate different market returns from their CSP? In this chapter I discuss the theoretical and managerial implications of each of the two studies that I used to address these key questions. I conclude by pointing out limitations of this research and by offering specific suggestions for future research.

Implications of Essay One

Theoretical Implications of Study One

To the best of my knowledge, I know of only one other published study that has examined factors related to the presence of CSR in a firm, which proposed a U-shaped relationship between firm size and CSR participation (Udayasankar 2007). My study extends the proposed firm size relationship by including several additional firm factors that are related to a firm's level of CSP, in particular organizational, market, customer, competitive and environmental characteristics. Also, to the best of my knowledge, my first study is the only one to empirically examine factors related to the level of CSP, and is certainly the first work to examine the role of marketing in these decisions. As mentioned previously, past researchers have argued for the need to develop a base of descriptive, empirical knowledge with respect to firm choices related to the inclusion of

CSR in their strategic decisions (Donaldson and Preston 1995, Margolis and Walsh 2003), and the present study is a first step in this direction.

I also examine the link between CSP and the intangible value of the firm, and find support for my hypothesis regarding this link. Specifically, my findings suggest that higher levels of CSP relative to the industry norm are associated with higher levels of firm intangible value. Conceptually, firm intangible value has been used as a measure of the value of a firm's marketing strategies, the strength of its brands or the brand equity of a firm. In essence, then, my findings suggest that higher levels of CSP are associated with higher levels of brand or company equity that may be the result of how the market responds to CSP.

Managerial Implications of Study One

The findings of this study, while not conclusive evidence, are useful to firms in the process of including CSP in their strategic decisions. Specifically, these results offer some guidance with respect to where firms should begin the process of identifying opportunities related to CSP when choosing which initiatives to put in place, and the level of CSP that they will incorporate in their corporate strategy. Given the previously discussed gap between the number of firms that have integrated CSP into their strategies and those that believe they should, the questions of how to do so and where to begin are likely to be important questions to an increasing number of firms. As noted in the introduction, the key question facing firms today is, "...no longer about whether to make substantial commitments to CSR, but how (Smith 2003)?" Furthermore, as suggested by

Institutional Theory, when firms are faced with an environment in which a particular strategy becomes legitimized within their competitive space but there is uncertainty about how to implement the strategy, many choose to mimic the behaviors of other adopters (Westphal, Gulati and Shortell 1997). In fact, there is a suggestion in the literature that when there is a socially legitimate goal (in this case CSP) that does not dictate a well defined routine for accomplishment that, "...the appropriate question may not only be whether organizations adopt *but how they adopt* (emphasis added)" (Westphal, Gulati and Shortell 1997). This echoes the sentiment above by Smith (2003), and suggests a critical need for firms to develop an understanding of how to best decide which CSR practices to adopt and the appropriate level of CSP. Indeed, there is evidence that many firms lack a unified direction in their CSR efforts, and as a result adopt initiatives that are defensive, tactical, and consist of a variety of disconnected initiatives (Berns et al 2009).

My results offer a glimpse into the features of firms that predict higher levels of CSP. Specifically my results suggest that, among the best socially performing firms, efforts to develop an overall CSP plan may be significantly improved by bringing the marketing function into the strategic planning phase of the development of their CSP, and focusing on the needs and demands of their own markets and customers as well as the opportunities that exist in the marketplace, rather than simply monitoring and mimicking competitors. The strong focus of marketing on the needs of external stakeholders may provide information with respect to the expectations and needs of these parties. This information may in turn aid the firm in developing an understanding of which initiatives are likely to generate the greatest "bang for the buck" for a firm with respect to key

marketing metrics, including brand equity or intangible value, that are influenced by CSP.

Implications of Essay Two

Theoretical Implications of Study Two

With respect to the CSR literature, my work pushes beyond “the long fought battle for a universally positive or negative impact of CSP” (Luo and Bhattacharya 2009) toward a deeper examination of how some firms may generate different market returns from CSP under different conditions (Luo and Bhattacharya 2006). I also answer a call to try to develop an understanding of the “inherent traps and pitfalls” of CSP for firms, and to try to understand when and how firms can benefit from their CSP efforts (Luo and Bhattacharya 2006). Specifically, I find that the historical trajectory of negative CSP and consistency of a firm’s positive and negative CSP history has an important impact on the effectiveness of the firm’s current period changes in CSP. Given the example that I have discussed, one can clearly see how the failure to understand a firm’s history of behavior can have important consequences for the CFP outcomes that a firm experiences, perhaps even creating a situation in which each additional increase in CSP can actually *harm* expectations about a firm’s long-term profitability. Clearly, additional research on other contextual factors that have an impact on the relationship between a firm’s CSP and CFP are called for.

My study also expands the work of DeKinder and Kohli (2008) into a new domain—CSP and reputation management efforts by firms—and suggests that trying to develop an understanding of the more nuanced, contextual impacts of a firm’s marketing efforts is critical to our ability to draw conclusions about the effects of a firm’s marketing efforts on CFP. In particular, it appears that ignoring the possible implications of a firm’s history of behaviors can cause us to miss important contextual effects of marketing strategy efforts and can create the potential for bias in the results that we rely on as marketing scholars.

Overall, my findings support previous evidence in the consumer behavior literature that a key driving factor of the credibility of a firm’s brand efforts in the CSP domain is the consistency with which the message is presented over time (Du, Bhattacharya, and Sen 2007; Erdem and Swait 1998), and that it is this credibility that, in turn, drives stakeholder responses and ultimately appears to drive the stock valuation of firms (Du, Bhattacharya, & Sen, 2007; Ellen, Webb, and Mohr 2006). In contrast to the previous literature, however, I demonstrate that these impacts carry through to firm’s stock valuation, which reflects expectations about the future cash flows of the firm. In addition, I demonstrate how particular features of a firm’s path of CSP over time impacts the payoffs that firm realizes from its CSP by demonstrating how the trajectory and consistency of a firm’s CSP path reduce the positive impacts that it experience as a result of changing its level of positive CSP.

Managerial Implications of Study Two

The first major managerial implication of the present work is that before a firm begins a program of trying to improve its CSP standing, it is critical to have an understanding of where it has come from and how stakeholders use information regarding a firm's history of CSP to develop their perceptions of its commitment to CSP and of the credibility of their message. I find evidence that firms with a stronger trajectory of negative CSP (either a history of growth in negative CSP or a trend toward increasing negative CSP) or a more inconsistent history of positive or negative CSP can actually suffer from a CSR Black Hole—the condition under which a firm's history with respect to CSP is sufficiently negative so that it receives either no response from the market, or that it could actually experience a decrease in intangible value as a result of increasing its positive CSP. This finding seems quite dismal, but I also find evidence that the market pays attention to only the last 4 or 5 years of a firm's history. This suggests that a firm with a negative history of CSP that begins a systematic, integrated CSP program today may not experience full returns for these efforts immediately, but if it can develop a consistent, non-negative path for the next 4 to 5 years, it may actually begin to reap the rewards of CSP that have been demonstrated in past literature on CSP. On the other hand, my results also suggest that firms with a positive history cannot afford to be less vigilant, since a single instance of inconsistency can haunt them for several years into the future and can significantly reduce the positive outcomes associated with their positive CSP efforts.

My results lend support to the contention in previous CSP research that firms that lack systematic, integrated approaches to CSP are less likely to enjoy the benefits of their

CSP efforts (Du, Bhattacharya, and Sen 2007), and that firms must approach CSP from an integrated, strategic perspective to develop an enduring, distinctive CSP program if they hope to reap the rewards that have been a staple of much of the previous CSP literature (Bhattacharya and Sen 2004; Luo and Bhattacharya 2006). Firms that have a history of tactical CSP efforts, in which they jump on board the latest “green” fad and then drop it when it no longer seems to be in vogue, may be surprised to learn that the market pays attention to what a firm has done over the past 4 or 5 years, and that jumping on and off the bandwagon may actually result in each new positive effort resulting in much smaller payoffs than expected (or even in negative returns).

Limitations and Future Research Directions

One limitation of the first study is that it uses a measure of the aggregate level of CSP across multiple domains to try to develop an understanding of the factors that influence a firm’s level of CSP. Given the multidimensional nature of CSR, it is entirely possible that firm performance in different dimensions of CSR may be driven by very different characteristics of firms and the contingencies that they face. For example, and as mentioned previously, though I predict and find that firms that serve consumer markets have a higher level of CSP, it is entirely possible that B2B firms may be more likely to undertake cost-cutting CSR initiatives as a result of the particular demands of their customers and the characteristics of the markets in which they compete. Related to the previous points, it is also entirely possible that decision makers have very different expectations of the outcomes that are associated with different dimensions of CSR.

Therefore, it would be useful to take the first study a step further by attempting to understand the drivers of CSP level along different dimensions of social responsibility, and whether or not the levels in each of these domains does, in fact, translate into the manager's expected outcomes.

Second, the first study of this dissertation takes initial steps toward understanding the factors that lead a firm to have higher levels of CSR. One desirable extension of this work, both academically and from a practitioner's perspective, would be to expand the group of factors examined to develop a deeper understanding of what characteristics of the firm, its markets and customers, and its competitive environment drive CSR by firms. For example, it may be that past positive and negative action by firms, the presence of institutional activist investors on the board, lawsuits over firm actions, media pressure, the personal interests of the CEO, the market- or customer-orientation of firms, and other considerations may be related to current levels of CSR. While my results provide strong evidence on the importance of marketing in firm's decisions regarding CSR, there are almost certainly additional variables that are likely to affect this decision.

One limitation of both studies is that all of my measures are captured in the source data as annual measures. This is less of an issue in the first essay, but may have some drawbacks in the second study. Although these measures are still likely to capture the impact of a firm's behaviors over the course of a given year, an analysis based on more continuous data would be an improvement and would lend to my ability to draw conclusions on the basis of the efficient markets hypothesis. More specifically, it would be useful to examine the impacts of newly announced CSP related actions of firms on the

stock value of firms over extremely short time windows to try to understand how new information about firm CSP is capitalized into the firm's stock price, and how this relationship may vary with different historical paths of positive and negative CSP.

Finally, the second study was based on a sample of companies that are headquartered in the U.S., which suggests that my results may have issues of generalizability if I look at an international context. I found no impacts of negative behaviors and believe that this finding may be based on the cynicism of American stakeholders with respect to corporate efforts in the CSP domain. It would be interesting and useful to try to understand how the contrast effect I discuss may be operating by extending this research into an international arena. Past evidence suggests that there is a general expectation among foreign stakeholders of social responsibility by firms, rather than the scattered demand for socially responsible activity that is typically experienced in the U.S. market (Holt, Quelch, and Taylor 2004). In other words, foreign stakeholders have a general expectation of social responsibility by firms (vs. the general expectation by U.S. stakeholders of corporate malfeasance); therefore, positive actions of firms, rather than standing out from the crowd, may simply be expected and garner no rewards, whereas negative behaviors of firms stand out from the general expectation and, as a result, warrant a negative response by stakeholders. Therefore, one might expect that the results of the present study may differ significantly in the international context on the basis of different beliefs and expectations for the behavior of firms.

TABLES

Table 2.1
Example KLD Stats Ratings – 2007^a

Dimensions	Lexmark (SIC 35)		Adobe (SIC 73)	
	Positive	Negative	Positive	Negative
Community	0	0	2	0
Corporate Governance	0	1	0	1
Diversity	4	0	1	0
Employment	1	0	3	0
Environment	1	0	1	0
Humanitarian	0	0	0	0
Product	0	0	0	0
Total	6	1	7	1
Industry Average	5.07	3.43	3.94	2.75
Score Relative to Industry	+ .93	-2.43	+3.06	-1.75

^a Numbers in columns represent count of sub-domains under each dimension for which firm has taken an action. Positive actions are those for which a firm is performing above minimum legal requirements in a particular sub-domain for each dimension. Negative actions are those for which a firm is performing below minimum legal requirements for a particular sub-domain.

Table 2.2
Description of Variables and Data Sources
(Study One)

Variable	Description	Source
DV = CSP Level	Number of sub-domains of positive CSP by firm in year	KLD Stats Database
Predictors of CSP Level		
Presence of a CMO in Top Management Team	Dummy variable – 1=CMO Present in TMT	Content Analysis of firm annual reports and proxy statements
Corporate v. House-of-Brands Branding Strategy	Dummy Variable – 1=Corporate Branding	Content analysis of corp. websites, press releases
Consumer (v. B2B) Market	Dummy Variable – 1=Consumer Market Served	Content analysis corp. websites, press releases
Greater Degree of Globalization	International Sales as percentage of Total Sales	COMPUSTAT
Controls		
Firm Size	Ln(Number of Employees)	COMPUSTAT
Negative CSP	Number of sub-domains of negative CSP by firm in year	KLD Stats Database
Return on Assets _{t-1}	Profits _{t-1} / Assets _{t-1}	COMPUSTAT
Market Leadership	Dummy Variable – 1 = Highest Sales in Industry	COMPUSTAT
Market Turbulence	Coefficient of Variation in Sales by Industry	COMPUSTAT
Measure of Intangible Value		
Tobin's q _{t+1}	$\frac{\text{MarketValue}_{t+1} + \text{LTDebt}_{t+1}}{\text{Assets}_{t+1}}$	COMPUSTAT

Table 2.3
Descriptive Statistics (Study One)

	Mean	Std. Dev.	Min	Max
Dependent Variable – Model of CSP Level				
1 CSP Level	2.88	2.83	0	22
Predictors of CSP Level				
2 CMO Presence in TMT (H1)	0.17	0.37	0	1
3 Corporate Branding Strategy (H2)	0.50	0.50	0	1
4 Consumer Market Served (H3)	0.52	0.50	0	1
5 International Intensity (H4)	0.28	0.24	0	0.93
Control Variables				
6 Firm Size	3.00	1.30	-0.95	7.65
7 Negative CSP	3.12	2.51	0	17
8 Return on Assets (lagged)	0.05	0.16	-4.58	0.50
9 Market Leadership	0.13	0.34	0	1
10 Market Turbulence	8.19	6.98	-19	92
Dependent Variable – Intangible Value Model				
11 Tobin's q	1.99	1.70	0.15	15.63

Table 2.4
Correlation Table (Study One)

		1	2	3	4	5	6	7	8	9	10	11
1	CSP Level	1										
2	CMO Presence in TMT	0.024	1									
3	Corporate Branding Strategy	0.003	0.062	1								
4	Consumer Markets Served	0.142	0.046	-0.284	1							
5	International Intensity	0.220	-0.004	0.067	-0.318	1						
6	Firm Size	0.338	-0.033	-0.096	0.318	-0.076	1					
7	Negative CSP	0.332	0.000	-0.037	0.100	0.015	0.350	1				
8	ROA (lagged)	0.070	-0.023	-0.086	0.096	0.002	0.075	-0.050	1			
9	Market Leadership	0.118	0.015	-0.039	0.107	-0.051	0.325	0.208	0.037	1		
10	Market Turbulence	0.011	-0.013	0.143	-0.231	0.224	-0.180	-0.121	-0.131	-0.159	1	
11	Tobin's q at time t	0.022	0.020	0.023	-0.051	0.161	-0.211	-0.239	0.251	-0.040	0.107	1
12	Tobin's q at time t-1	0.043	0.010	0.022	-0.046	0.162	-0.189	-0.238	0.269	-0.041	0.125	0.868

Table 2.5
CSP Level Measure by Industry - 2007

SIC	Mean	Standard Deviation	Min	Max	SIC	Mean	Standard Deviation	Min	Max
01 – Agriculture-Crops	5.00	1.73	3	7	44 – Water Transport	0.25	0.71	0	2
10 – Metal Mining	2.19	1.64	0	5	45 – Air Transport	5.38	1.61	2	8
12 – Coal Mining	0.07	0.27	0	1	48 – Communication	2.97	2.69	0	10
13 – Oil and Gas Extraction	1.66	1.30	0	5	49 – Electric, Gas, Sanitary	2.67	2.08	0	13
16 – Heavy Construction	0.75	1.49	0	4	50 – Durable Goods	0.48	0.75	0	2
20 – Food and Kindred Products	3.17	2.83	0	13	51 – Nondurable Goods	1.17	1.07	0	3
21 – Tobacco Products	1.47	1.85	0	6	52 – Building Materials/Gardening	2.25	2.02	0	7
22 – Textile Mill Products	2.33	1.03	1	4	53 – General Merchandise	2.71	1.79	0	6
23 – Apparel	1.94	2.06	0	6	54 – Food Stores	2.23	1.35	0	6
24 – Lumber & Wood	1.26	1.96	0	7	55 – Auto Dealers/Service Stations	0.47	0.52	0	1
25 – Furniture	3.06	2.17	1	7	56 – Apparel Stores	3.50	2.70	0	9
26 – Paper and Allied Products	3.52	3.29	0	12	57 – Furniture Stores	1.25	1.32	0	6
27 – Printing and Publishing	2.96	1.85	0	7	58 – Eating & Drinking Places	3.98	2.98	0	12
28 – Chemicals	4.15	3.52	0	16	59 – Misc. Retail	2.00	1.56	0	8
29 – Petroleum & Coal	3.51	2.61	0	8	62 – Security & Commodity Brokers	0.40	0.74	0	2
30 – Rubber & Plastics	2.77	2.93	0	13	63 – Insurance Carriers	3.00	2.24	0	7
31 – Leather Products	1.29	0.76	0	2	64 – Ins. Agents, Brokers & Service	1.67	0.62	1	3
32 – Stone, Clay, Glass Products	0.33	0.82	0	2	65 – Real Estate	0.50	1.00	0	2
33 – Primary Metal	2.96	2.32	0	10	70 – Hotels and Lodging	3.09	2.69	0	9
34 – Fabricated Metal	1.46	1.56	0	6	72 – Personal Services	2.18	1.66	0	5
35 – Industrial Machinery	3.55	3.67	0	18	73 – Business Services	3.07	3.23	0	22
36 – Electronics	2.81	3.06	0	19	75 – Auto Repair, Service, & Parking	2.88	1.81	1	5
37 – Transportation Equipment	3.52	2.66	0	11	79 – Amusement & Recreation	1.50	0.76	1	3
38 – Instruments	3.10	3.05	0	16	80 – Health Services	0.75	1.31	0	5
39 – Misc. Manufacturing	4.13	2.42	1	10	82 – Educational Services	1.00	0.00	1	1
40 – Railroad Transport	2.56	0.89	1	5	87 – Engineering & Mgmt. Services	1.73	0.96	0	4
42 – Trucking	5.71	3.15	2	9	99 – Unclassified	2.17	1.60	1	5

Table 2.6
Simultaneous Estimation
Regression Results^a (Study One)

Variable	Simultaneous Estimation Coefficients
First Stage Estimation Results – CSP Level	
CMO Presence in TMT	0.34 (1.54)
Corporate Branding Strategy	0.62 * (2.57)
Consumer Market Served	1.39 *** (4.09)
International Intensity	1.82 ** (3.14)
Firm Size	0.16 (0.46)
Negative CSP	0.18 *** (3.61)
Return on Assets _{t-1}	0.32 (1.18)
Market Leadership	0.39 (0.99)
Market Turbulence	0.00 (1.02)
Contemporaneous Tobin's Q	0.14 * (2.53)
Second Level Estimation – Firm Intangible Value	
CSP Level	0.09 ** (2.12)
Negative CSP	-0.04 *** (-3.98)
Firm Size	-0.12 ** (-3.29)
Tobin's q _{t-1}	0.66 *** (21.91)

T-statistics in parentheses, dependent variable is the number of domains of positive actions by firms' sample consists of N=447 firms across 8 years, 3198 total observations.

*** denotes significance at the 0.001 Level

** denotes significance at the 0.01 Level

* denotes significance at the .05 Level

^a Regression models include Huber-White correction for clustered errors by firm, and Industry and Year fixed effects.

Table 3.1
Summary of Impacts of Corporate Social Performance (CSP)
On Firm Cash Flows

Impact on Firm Performance	Evidence in Past Marketing and Management Literature
Acceleration of Cash Flows	<ul style="list-style-type: none"> • Increased Purchase Behavior (Sen, Bhattacharya, and Korschun 2006) • Increased willingness to try new products (Du, Bhattacharya and Sen 2007) • Consumers seek increased contact with company (Sen and Bhattacharya 2001) • Increased Loyalty (Bhattacharya and Sen 2004; Du, Bhattacharya and Sen 2007)
Enhancement of Cash Flows	<ul style="list-style-type: none"> • WOM, Advocacy and brand evangelism (Hoeffler and Keller 2002; Bhattacharya and Sen 2004; Du, Bhattacharya and Sen 2007) • Increased Willingness to Pay (Bhattacharya and Sen 2004; Trudel and Cotte 2009) • Reduced Importance of price and lower cost of differentiation of offering in consumers' minds (Gourville and Rangan 2004)
Decreased Risk/Volatility of Cash Flows	<ul style="list-style-type: none"> • Generates stability in cash flows (Luo and Bhattacharya 2006; Korschun 2008) • Reservoir of goodwill/resilience in the face of negative information (Dawar and Pillutla 2000; Klein and Dawar 2004; Bansal and Clelland 2004; Godfrey 2005) • Insurance like effect (Peloza 2006; Godfrey et al 2009) • Decreased firm stock risk/volatility (Luo and Bhattacharya 2009)
Development of Intangible Assets	<ul style="list-style-type: none"> • Customer satisfaction which drives firm performance (Luo and Bhattacharya 2006) • Generation of brand equity (Hoeffler and Keller 2002; Rust, Lemon and Zeithaml 2004) • Relational wealth/relationship equity (Du, Bhattacharya and Sen 2007; Luo and Bhattacharya 2009)

Table 3.2
Correlation Table – Four Year Time Window (Study Two)

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Tobin's q	1															
2	Change in Positive CSP	.07	1														
3	Change in Negative CSP	.04	-.10	1													
4	Positive CSP Displacement	.08	-.10	.00	1												
5	Positive CSP Propensity	.07	-.06	-.02	.85	1											
6	Positive CSP Reversals	-.03	.09	.02	.00	-.10	1										
7	Negative CSP Displacement	-.09	-.01	.13	.09	.10	.02	1									
8	Negative CSP Propensity	-.07	-.01	.10	.05	.03	.03	.84	1								
9	Negative CSP Reversals	-.07	.01	-.03	.02	.04	.04	-.17	-.23	1							
10	Positive CSP Level (t-1)	.06	-.05	.05	.72	.49	.19	.08	.09	.00	1						
11	Negative CSP Level (t-1)	-.21	.10	.06	.18	.13	.11	.52	.43	-.01	.30	1					
12	Tobin's q (t-1)	.87	.03	.03	.08	.06	-.06	-.11	-.10	-.07	.07	-.24	1				
13	Change in Physical Resources	-.03	-.03	-.04	.00	-.02	-.10	-.08	-.04	.06	.03	-.02	.08	1			
14	Change in Leverage	.16	-.04	-.05	.05	.03	-.05	-.07	-.07	-.06	-.03	-.13	.24	.18	1		
15	Change in Financial Resources	.10	.04	.06	-.08	.01	.09	-.01	-.06	-.01	-.06	.00	.01	-.23	-.13	1	
16	Change in Size	.17	.02	-.00	.04	.04	-.02	-.06	-.05	.00	-.01	-.12	.23	.38	.19	-.13	1
17	Change in ROA	.19	.09	.07	-.14	-.10	.05	.10	.10	-.05	-.12	.03	.08	-.13	-.15	.31	-.19

Table 3.3
Description of Variables (Study Two)

Variable	Description	Source
DV = Firm Intangible Value	$\frac{\text{Market Cap}_t + \text{Preferred Shares}_t + \text{LT Debt}_t}{\text{Total Assets}_t}$	COMPUSTAT
Change in Positive (Negative) CSP	$\text{Total Positive (Negative) Behavior}_t - \text{Total Positive (Negative) Behavior}_{t-1}$	KLD Stats
CSP Displacement for time window k	$\text{Total Positive (Negative) Behavior}_{t-1} - \text{Total Positive (Negative) Behavior}_{t-k}$	KLD Stats
CSP Propensity for time window k	Scoring of change between time periods, summed across k periods (+1 for increase, 0 for no change, -1 for decrease from previous period)	KLD Stats
CSP Reversals for time window k	Count of number of times over period k for which a firm increased then decreased, or decreased then increased, social performance	KLD Stats
Past Level of Positive (Negative) CSP	$\text{Total Positive (Negative) Behavior}_{t-1}$	KLD Stats
Past Level of Firm Intangible Value	$\frac{\text{Market Cap}_{t-1} + \text{Preferred Shares}_{t-1} + \text{LT Debt}_{t-1}}{\text{Total Assets}_{t-1}}$	COMPUSTAT
Change in Physical Resources	$\frac{(\text{Total Assets}_t - \text{Current Assets}_t)}{\text{Total Assets}_t} - \frac{(\text{Total Assets}_{t-1} - \text{Current Assets}_{t-1})}{\text{Total Assets}_{t-1}}$	COMPUSTAT
Change in Leverage	$\frac{(\text{LT Debt}_t - \text{Current Debt}_t)}{\text{Total Assets}_t} - \frac{(\text{LT Debt}_{t-1} - \text{Current Debt}_{t-1})}{\text{Total Assets}_{t-1}}$	COMPUSTAT
Change in Financial Resources	$\frac{\text{Cash Flow}_t}{\text{Revenue}_t} - \frac{\text{Cash Flow}_{t-1}}{\text{Revenue}_{t-1}}$	COMPUSTAT
Change in Firm Size	$\ln(\text{Number of Employees}_t) - \ln(\text{Number of Employees}_{t-1})$	COMPUSTAT
Change in ROA	$(\text{Profit}_t / \text{Assets}_t) - (\text{Profit}_{t-1} / \text{Assets}_{t-1})$	COMPUSTAT
ROA Displacement for time window k	$(\text{Profit}_{t-1} / \text{Assets}_{t-1}) - (\text{Profit}_{t-k} / \text{Assets}_{t-k})$	COMPUSTAT
ROA Propensity for time window k	Scoring of change between time periods, summed across k periods (+1 for increase, 0 for no change, -1 for decrease from previous period)	COMPUSTAT
ROA Reversals for time window k	Count of number of times over period k for which a firm increased then decreased, or decreased then increased ROA	COMPUSTAT
Industry Controls	Dummy Variables for each 2 digit SIC	COMPUSTAT

Table 3.4
Descriptive Statistics –
Four Year Time Window (Study Two)

	Mean	Std. Dev.	Min	Max
Dependent Variable				
1 Firm Intangible Value (Tobin's q_t)	1.82	1.21	.42	7.48
Predictors of Intangible Value				
2 Change in Positive CSP	.31	1.07	-3	5
3 Change in Negative CSP	-.30	1.03	-5	2
4 Positive CSP Displacement	1.20	2.07	-3	9
5 Positive CSP Propensity	.68	1.32	-3	4
6 Positive CSP Reversals	.37	.70	0	3
7 Negative CSP Displacement	1.13	1.85	-3	7
8 Negative CSP Propensity	.72	1.23	-2	4
9 Negative CSP Reversals	.80	.89	0	3
Control Variables				
10 Positive CSP Level $_{t-1}$	3.67	3.42	0	20
11 Negative CSP Level $_{t-1}$	3.77	2.71	0	17
12 Intangible Value $_{t-1}$	1.94	1.34	.38	13.31
13 Change in Physical Resources	.01	.06	-.22	.30
14 Change in Leverage	.02	.11	-.19	1.39
15 Change in Financial Resources	-.01	.04	-.20	.13
16 Change in Size	.02	.17	-.74	1.47
16 Change in ROA	-.004	.07	-.63	.57

Table 3.5
Regression Results –
Four Year Time Window (Study Two)

	Model 1 – Full Model		Model 2 – Displacement Model		Model 3 – Propensity Model	
	Coefficient	Std. Error	Coefficient	Std. Error	Coefficient	Std. Error
Change in Positive CSP	.228 **	(.069)	.209 **	(.068)	.225 **	(.068)
Change in Negative CSP	.063	(.058)	.056	(.058)	.042	(.055)
Positive CSP Displacement	-.006	(.033)	.025	(.018)	---	---
Positive CSP Propensity	.056	(.052)	---	---	.050	(.027)
Positive CSP Reversals	.078	(.057)	.048	(.053)	.067	(.055)
Negative CSP Displacement	-.016	(.037)	.000	(.021)	---	---
Negative CSP Propensity	.033	(.057)	---	---	.006	(.032)
Negative CSP Reversals	.004	(.042)	-.002	(.040)	.002	(.041)
Positive Change x Positive Displacement	.033	(.026)	.009	(.015)	---	---
Positive Change x Negative Displacement	-.036	(.034)	-.039 *	(.017)	---	---
Negative Change x Positive Displacement	.000	(.033)	.000	(.018)	---	---
Negative Change x Negative Displacement	-.051	(.033)	-.004	(.017)	---	---
Positive Change x Positive Propensity	-.050	(.042)	---	---	-.007	(.023)
Positive Change x Negative Propensity	-.005	(.050)	---	---	-.051 *	(.026)
Negative Change x Positive Propensity	-.012	(.049)	---	---	-.011	(.027)
Negative Change x Negative Propensity	.083	(.048)	---	---	.017	(.025)
Positive Change x Positive Reversals	-.107 *	(.049)	-.078	(.045)	-.093 *	(.047)
Positive Change x Negative Reversals	-.098 *	(.038)	-.094 *	(.038)	-.092 *	(.038)
Negative Change x Positive Reversals	-.003	(.044)	-.011	(.042)	-.006	(.043)
Negative Change x Negative Reversals	-.056	(.041)	-.055	(.040)	-.051	(.040)
Intangible Value _{t-1}	.709 **	(.030)	.709 **	(.030)	.714 **	(.029)
Change in Physical Resources	-1.262	(.615)	-1.265	(.613)	-1.187	(.608)
Change in Leverage	.102	(.308)	.091	(.306)	.085	(.307)
Change in Financial Resources	1.770	(1.017)	2.019	(.983)	1.838	(.988)
Change in Size	.319	(.220)	.317	(.219)	.306	(.218)
Change in ROA	2.044 **	(.474)	2.063 **	(.472)	2.077 **	(.470)
Model R ²	0.827		0.824		0.824	

Dependent variable is firm intangible value, sample consists of N=351 firms observations.

Model includes dummy variables for each industry in the sample as control variables.

** denotes significance at the 0.01 Level

* denotes significance at the .05 Level

Table 3.6
The “CSR Black Hole” – Hypothetical Scenarios

Lexmark Hypothetical Scenario: Lexmark continues their behavior from 2007 for the next five years, increasing positive CSP by one unit each period and no change in negative CSP.

LEXMARK	Positive CSP History				Negative CSP History				Change in Tobin's q
	Change	Displacement	Propensity	Reversals	Change	Displacement	Propensity	Reversals	
2007	+1	+1	+1	1	0	0	0	2	-.069
2008	+1	+2	+1	0	0	-2	-1	1	+.244
2009	+1	+4	+3	0	0	0	0	1	+.156
2010	+1	+5	+4	0	0	+1	+1	0	+.213
2011	+1	+4	+4	0	0	0	0	0	+.213

Adobe Hypothetical Scenario: Adobe decreases positive behavior in 2008, then continues previous path for the next three years, increasing positive CSP by one unit each period and no change in negative CSP.

ADOBE	Positive CSP History				Negative CSP History				Change in Tobin's q
	Change	Displacement	Propensity	Reversals	Change	Displacement	Propensity	Reversals	
2007	+1	+3	+2	0	0	0	0	0	+.272
2008	-1	+4	+3	0	0	0	0	0	-.265
2009	+1	+3	+2	1	0	0	0	0	+.142
2010	+1	+2	+2	2	0	0	0	0	-.033
2011	+1	+2	+2	2	0	0	0	0	-.033

FIGURES

Figure 2.1

Conceptual Framework (Study One)

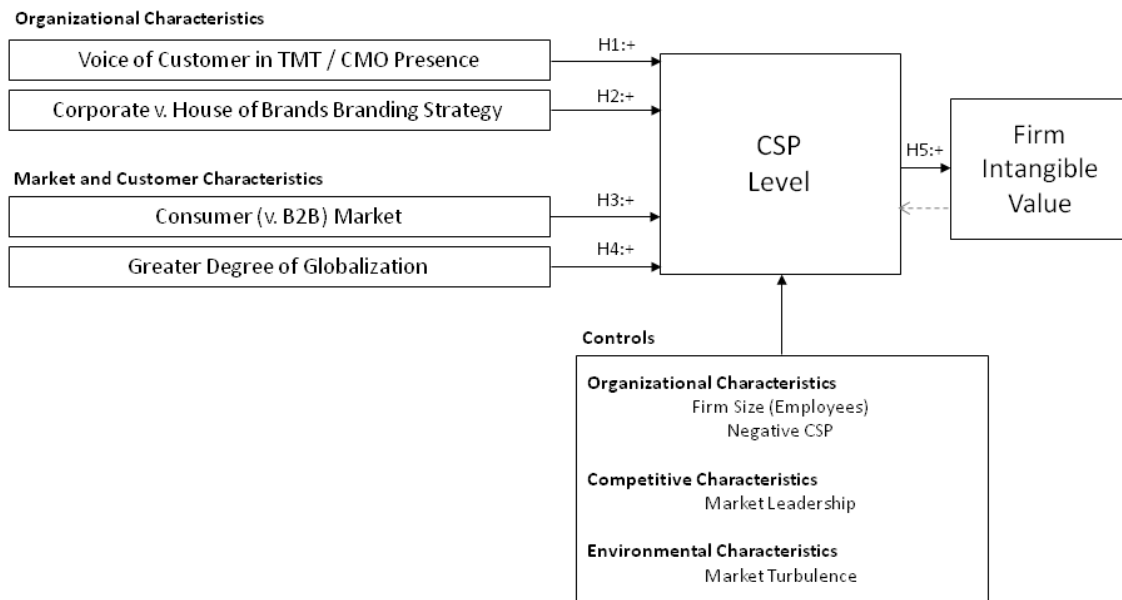


Figure 2.2
CSP Level Time Trend

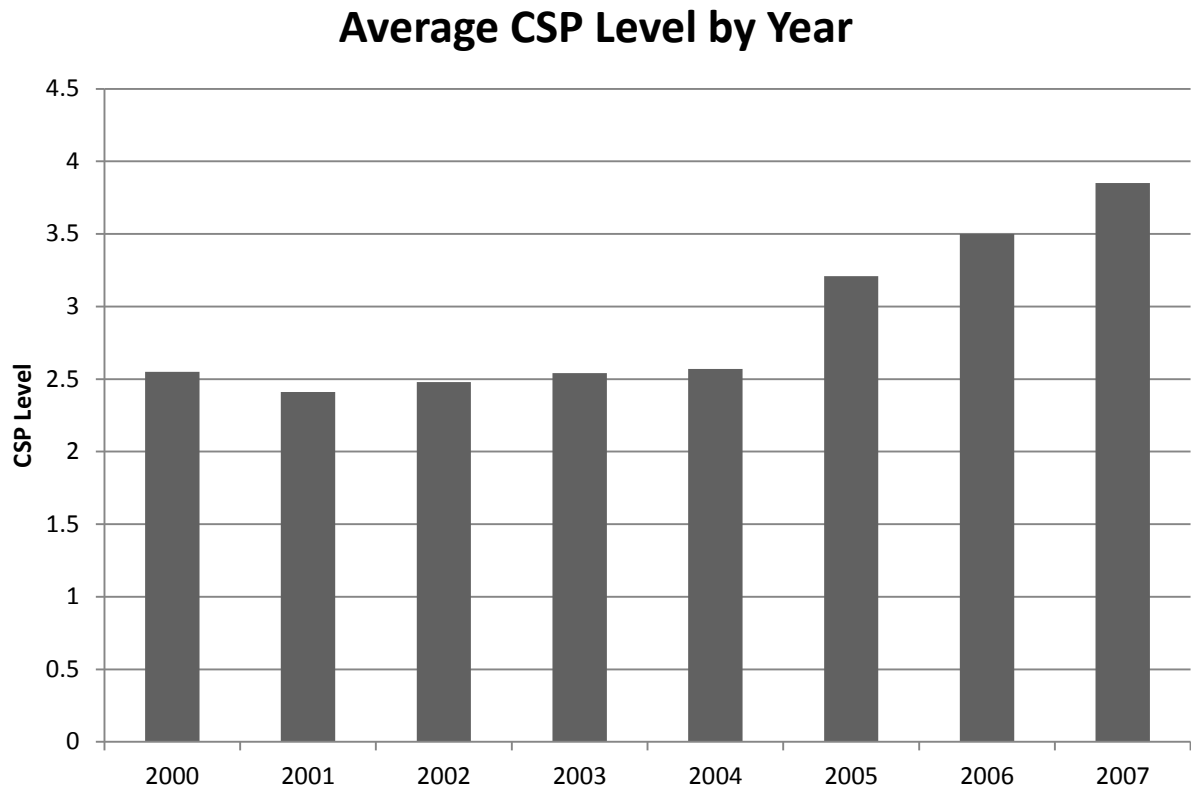


Figure 3.1
Two Examples of Firm Corporate Social Performance (CSP) Over Time

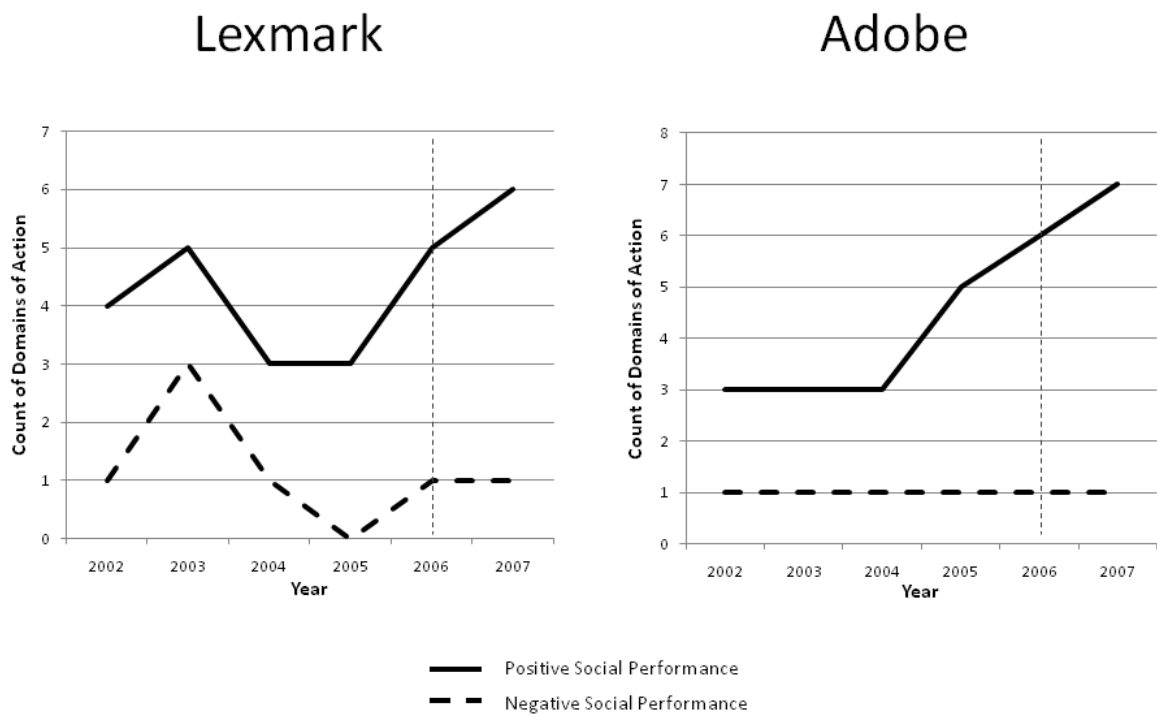
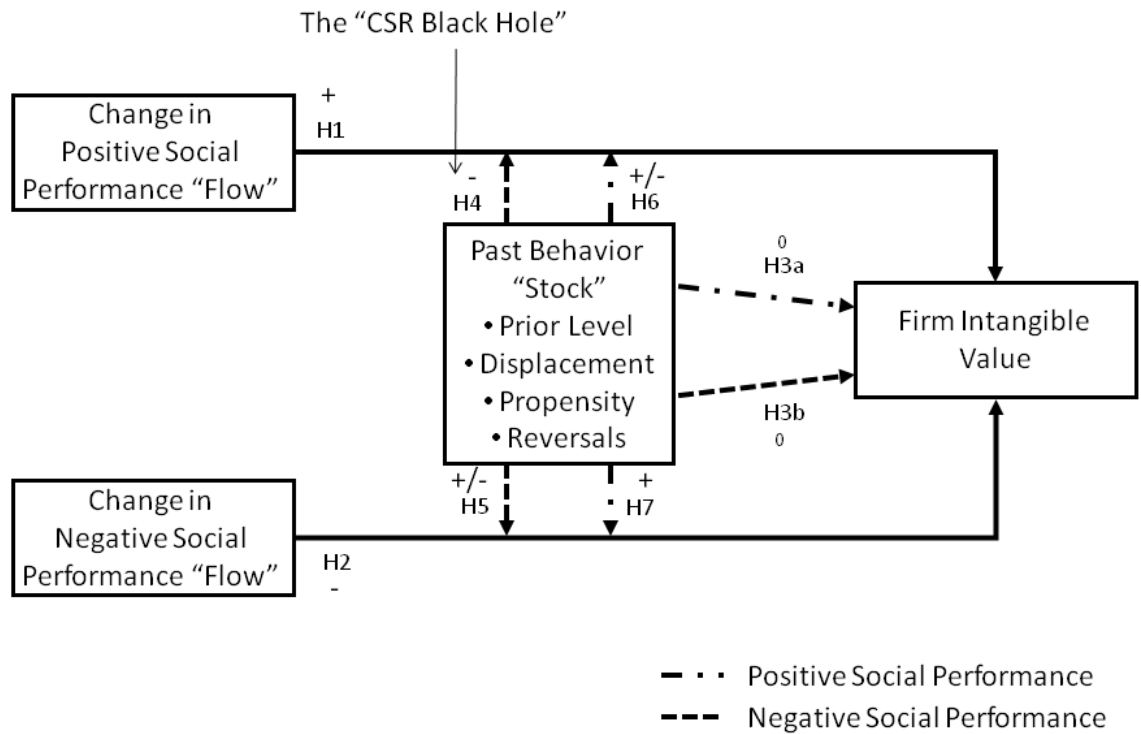


Figure 3.2

Conceptual Model (Study Two)



Appendix

Dimensions and Sub-domains of Positive CSR Included in KLD Database

Community

Limited Compensation
Ownership Strength
Transparency Strength
Political Accountability
Public Policy Strength

Diversity

CEO
Promotion
Board of Directors
Work-Life Benefits
Women and Minority Contracting
Employment of Disabled
Gay and Lesbian Policies

Environmental

Beneficial Products and Services
Pollution Prevention
Recycling
Clean Energy
Property, Plant, and Equipment
Management Systems

Product

Quality
R&D/Innovation
Benefits to Economically Disadvantaged

Corporate Governance

Charitable Giving
Innovative Giving
Support for Housing
Support for Education
Non-US Charitable Giving
Volunteer Programs

Employment

Union Relations
No-Layoff Policy
Cash Profit Sharing
Employee Involvement
Retirement Benefits
Health and Safety

Humanitarian

Indigenous Peoples
Labor Rights
Human Rights

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