# Does CSR create shareholder wealth?

blogs.lse.ac.uk/businessreview/2016/03/07/does-csr-create-shareholder-wealth/

3/7/2016

Due to increasing pressures on organisations to behave in socially responsible ways, corporate social responsibility (CSR) is becoming a “must have” component of corporate strategy. This is a good development for the society at large as the massive rate of industrialization in the last century has placed a heightened burden on the limited resources our planet has to offer. However, the primary responsibility of managers of corporations, particularly of the publically owned ones, is not to increase social welfare but to maximize the returns on investments of their shareholders. The same members of the society who look for social responsibility from firms are often ready to take managers to task for not delivering consistent financial growth to their investments as shareholders. This places a dilemma for managers, with the central question confronting them: Is CSR worth it from the perspective of shareholder wealth?

In our recent study, we attempt to answer this question that has troubled managers and scholars for the better part of the last four decades. And what we observe after rigorously analyzing data from a large sample of 1725 firms in the United States for the years 2000-2009, is that the answer is a characteristically academic one – “it depends!”

So what does it depend on? Our investigation reveals that CSR efforts do not affect metrics of firm shareholder wealth, i.e., stock returns and idiosyncratic stock risk, on their own, but only do so in the presence of a superior marketing capability. In other words, we see that firms which are better at converting their marketing inputs into financial outputs compared to their industry competitors, are the ones better positioned to leverage CSR for shareholder wealth.

Our story doesn’t stop here either. Disentangling different types of CSR, we further observe that even marketing capability doesn’t lead to shareholder gains from all types of CSR efforts. Rather, marketing capability increases (decreases) stock returns (idiosyncratic stock risks) only for those CSR initiatives that are directed towards key stakeholders and offer verifiable benefits to them. In particular, we see that marketing capability benefits socially responsible efforts centered on environment (e.g., using clean energy), product (e.g., providing to economically disadvantaged), diversity (e.g., pursuing top management diversity), corporate governance (e.g., limiting board compensation), and employees (e.g., supporting unions), as these tend to have direct and verifiable consequences

for key organizational stakeholders. However, we do not observe a benefit to shareholders if firms invest in broad-based, typically unverifiable community-based charity efforts, irrespective of how good they are at marketing.

The reasons we are excited about these findings and think they are worth sharing with readers on this forum are two-fold. First, although extant research has evaluated the financial value of CSR, the findings have been equivocal, with studies reporting a spectrum of positive, neutral, and negative effects. On closer look, the reasons for the plethora of findings are clear. Much research has suffered from small sample sizes, has adopted a too narrow or too broad measurements of CSR, and/or has lacked statistical sophistication. Comparatively, we use a large sample of firms observed over 10 years and employ some of the most advanced statistical techniques to look at both overall CSR and its dimensions. Second, and more importantly, in the quest of finding an unambiguous direct link between CSR and financial performance, scholars have largely given short shrift to factors that might affect the relationship, switching it off or on in certain cases. Again, by looking at the governing role of marketing capability and parceling out different types of CSR, we deviate from previous investigations to be able to provide some unique and novel insights.

Based on the findings, managers can derive multiple takeaways from our study. First, since stakeholder-based CSR efforts are financially valuable when complemented with a superior marketing capability, senior executives can confidently focus on the right types of CSR efforts, knowing well that this would both improve societal well-being and benefit shareholders. Second, within different types of stakeholder-based CSR efforts, our findings reveal that managers are likely to receive greatest shareholder benefits from environmental-based CSR efforts, followed by improvements in diversity, corporate governance, and employee benefits. This can help prioritise CSR investments in today's era of tight financial budgets. Finally, the key role of marketing capability highlights the need for greater involvement by marketing managers in the CSR efforts of firms. Indeed, marketing managers can help firms understand the needs and aspirations of stakeholders better, allowing firms to come up with CSR initiatives that resonate better with consumers, workers, channel members, and the community at large. Marketing managers can also help communicate the socially responsible efforts more effectively to seal the positioning advantage for firms from CSR, affording higher financial returns to their shareholders and deliver a win-win outcome for everyone!

*Notes:*

- *This article is based on the authors' paper Corporate Social Responsibility and Shareholder Wealth: The Role of Marketing Capability, in Journal of Marketing: January 2016, Vol. 80, No. 1, pp. 26-46.*
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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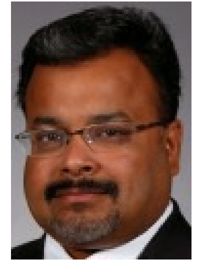

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