Corporate Social Responsibility (CSR) and Marketing Performance: Role of Commitment to the Customer Relationship (An Extended Abstract)

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Introduction

The nexus between corporate social responsibility (CSR) and firm financial performance has been researched extensively, but the findings have been inconclusive or even conflicting. However, the link between corporate social responsibility (CSR) and marketing performance is unexplored. This study examines the relationship between CSR and marketing performance and uncovers a positive relationship. It also shows that the degree of commitment toward the customer relationship further enhances the positive relationship.

Background of the Study

Companies are increasingly spending considerable amounts on various types of corporate social responsibility (CSR) activities such as safeguarding human rights and welfare, investing in education, environmental protection, and so forth.

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Academics and managers have become interested in finding out whether these activities are paying off in terms of improved financial performance. Many studies have been undertaken but the results are inconclusive; some have found a positive relationship and others a negative relationship. One possible reason for the mixed findings is the wide variety of performance measures used. Various dimensions of financial performance have been examined, but marketing performance, defined as the relationship between marketing inputs and outputs, has remained unexplored.

This study fills that void by examining the relationship between CSR programs and marketing performance. Furthermore, it investigates whether the relationship that a company has with its customers moderates the relationship between CSR and marketing performance. This study tests the following hypotheses:

H_1: *CSR activities have a positive impact on marketing performance.*
H_2: *The greater the commitment to the customer relationship, the greater the impact of CSR on marketing performance.*

Methodology

Data Sources

Data for this study were collected from two databases, both of which have been extensively utilized by earlier studies (e.g., Shahzad and Sharfman 2015; Servaes and Tamayo 2013). Data on CSR activities were collected from the KLD Stats database of KLD Research and Analytics, Inc., a Boston-based research firm specializing in tracking the CSR activities of US-based companies. KLD tracks and reports on CSR activities in thirteen categories: community, diversity, employment, environment, human rights, product, alcohol, gaming, firearms, military, nuclear, tobacco, and corporate governance.

Data on marketing performance, i.e., sales revenue and expenditure (selling, general, and administrative), were obtained from the Compustat database. Data pertaining to commitment to the customer relationship were also collected from Compustat. Additional data relating to control variables such as research and development (R&D) expenditure, total assets, and long-term debt were collected from Compustat.

Variable Construction

Consistent with earlier studies (e.g., Servaes and Tamayo 2013; Lee et al. 2013), a composite measure of corporate social responsibility (CSR) was constructed from the following five categories: community, diversity, human rights, environment, and employee relations. KLD Stats reports data on the number of strengths and concerns in each of the categories for each firm. In line with Servaes and Tamayo (2013), we scaled the number of strengths and concerns for each firm year to calculate two indices ranging from 0 to 1. We then divided the number of strengths and concerns for each firm year for each of seven CSR categories by the maximum possible number of strengths and concerns each category year. We then subtracted the value for concerns from the value for strengths to compute a measure of net CSR involvement in each category, ranging from−1 to +1 for each firm year. Finally, the net CSR scores for each variable were added up to compute a net CSR measure ranging from−5 to +5.

The dependent variable, "marketing performance," was operationalized as selling, general, and administrative expenditure divided by sales revenue (Rahman and Lambkin 2015). Following Nath et al. (2010), the level of commitment to customers was measured as accounts receivables divided by sales revenue, consistent with similar studies. This study employed four control variables: firm size, R&D activity, capital structure, and economic condition.

Sample Period and Sample Size

Sample firms were drawn from the S&P 500 list of companies. The sample period for the study is from 1991 to 2009. We merged the nonfinancial firms from the Compustat database with those in the KLD database to obtain the sample employed in this paper. The final sample size of the study was 4567 observations.

Research Model

To estimate the relationship between corporate social responsibility (CSR) and marketing performance (H_1) and the possible moderating effect of commitment toward customer relationship (H_2), we have relied on the following specification:

$$
\begin{gathered}
\text{Marketing performance}_{it} = \beta + \alpha_0 \text{marketing performance}_{it-1} \\
+\alpha_1 \text{corporate social responsibility}_{it} \\
+\alpha_2\ c\text{ommitment toward customer relationship} \\
\times \text{corporate social responsibility}_{it} \\
+\alpha_3 \text{commitment toward customer relationship}_{it} \\
+\alpha_4 \text{firm size}_{it} + \alpha_5 \text{leverage}_{it} \\
+\alpha_6 R\,\&\,D\,\text{intensity}_{it} + \alpha_7 \text{economic growth}_{it} \\
+\eta_i + \varepsilon_{it}
\end{gathered}
$$

where i and t represent firm and year, respectively, η_i is the possible firm-specific component of the error term, and ε_{it} is the error term.

To estimate this specification, we utilized general least squares (GLS) random-effect estimations because the variables related to CSR policies have low intertemporal variability. The fixed-effect estimations are based on the differences in time, so are particularly inefficient for estimating this specification.

Consistent with similar studies (e.g., Torres et al. 2012), we estimated a partial adjustment model (Hanssens et al. 2001). In this model, the dependent variable was lagged by one period which allowed us to analyze the effects, both in the short and long term.

Finally, we also carried out the Granger causality test to rule out reverse causality. Our results confirmed the direction of influence from corporate social responsibility (CSR) to marketing performance $\left(F_{Granger\ test} = 25.20, p - value < 0.01\right)$. We also conducted the Durbin-Wu-Hausman test to examine the possible endogeneity. Our results indicated the absence of endogeneity $\left(\mathrm{Chi}^2_{\mathrm{Durbin}-Wu-\mathrm{Husmantest}} = 3{,}607, p - \mathrm{value} = 0.057\right)$. Furthermore, we analyzed the data for possible outliers, although they were not an issue since there was no value outside the range $\left(\mu - 3\sigma, +3\sigma\right)$.

Results and Discussion

The correlation analysis demonstrates small correlations (far below the threshold of 0.70) among the explanatory variables and the variance inflation factors (VIF) are below 10, indicating low multicollinearity. In line with our first hypothesis (H_1), the correlation matrix shows that marketing performance is positively correlated with corporate social responsibility (33 %). In contrast, the control variables have varying associations with marketing performance. Of the four control variables, two (R&D intensity and economic growth (GDP)) are positively correlated to marketing performance (68.94 % and 1.51 %, respectively), while the other two (firm size and leverage) are negatively correlated with marketing performance (18.72 % and 23 %, respectively).

In our hypotheses testing, we found that corporate social responsibility (CSR) has a positive impact on marketing performance $\left(\propto_1 = 0.0042, p - \mathrm{value} < 0.05\right)$. The results support our first hypothesis (H_1). The results also support our second hypothesis (H_2) and confirm the positive, moderating role of the level of commitment toward the customer relationship between corporate social responsibility (CSR) and marketing performance $\left(\propto_2 = 0.0037, p - \mathrm{value} < 0.05\right)$. More specifically, our findings demonstrate that the greater the level of commitment toward the customer relationship, the greater is the impact of corporate social responsibility on the marketing performance. Our analysis also shows that the level of commitment toward the customer relationship has a direct effect on marketing performance which is statistically significant $\left(\propto_3 = 0.0032,\ p - \mathrm{value} < 0.01\right)$.

The inclusion of the lagged term of marketing performance in our model allowed us to uncover the long-term effect of CSR on marketing performance. The significant coefficient of the lagged dependent variable $\left(\alpha_0 = 0.7946, p\ \ value < 0.01\right)$

indicates that CSR has a significant influence on long-term marketing performance. Furthermore, our analysis demonstrates that the moderating role of the commitment toward the customer relationship also holds true for the long term.

Of the four control variables, three turned out to be statistically significant. Our analysis showed that large firms $\left(\alpha_4 = 0.0020,\ p - \text{value} < 0.05\right)$ have better marketing performance. Also, a firm's level of R&D investment positively impacts marketing performance $\left(\alpha_6 = 0.3684,\ p - \text{value} < 0.01\right)$, and firms with a low leverage level $\left(\alpha_5 = -0.0135, p - value < 0.05\right)$ have higher marketing performance.

Conclusion

Our study shed light on the relationship between CSR and marketing performance which has not been explored until now. Our findings also showed that the impact of CSR on marketing performance tends to heighten as firms increase their level of commitment toward their customer relationship.

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